CANADIAN IMPERIAL
BANK OF COMMERCE

Annual Report 1982

Contents

Sur simple demande, nous nous ferons un plaisir de vous faire parvenir la version française du présent rapport.

Russell E. Harrison, *Chairman and Chief Executive Officer*

Report of the Chairman

The past year has been one of extraordinary economic stress for the world, for Canada, for our customers and for the Bank itself. In reviewing the performance of the Commerce in the troubled and demanding climate of fiscal 1982, a definite pattern emerges—a series of parallels between the unsettled state of the economy and the challenges being confronted by your Bank. It is apparent that our business has been adversely affected in precisely those areas in which the economy has been most seriously dislocated.

It was an unsettling and worrisome year, producing many anomalies and contradictions. Inevitably this mixture of strengths and weaknesses was reflected in our results. However, on balance and considering the circumstances, your Bank's performance should be viewed positively. In 1982 we met unprecedented challenges and held firm, we put our house in better order, and, at the same time, we managed to make some worthwhile gains.

While we have had to absorb record loan losses, we have been able to produce quite

respectable earnings. We have strengthened our capital resources relative to our asset growth—a significant indicator of basic strength. We have virtually eliminated the costly mismatch of maturities between our fixed-rate assets and liabilities. And we have continued to curb costs by reducing the rate of advance in operating expenses other than interest on deposits.

Most important of all, perhaps, the soundness and stability of your Bank has been acutely tested and we have demonstrated our ability to withstand the pressures exerted on us by a prolonged recession.

We should be encouraged by the progress we are making in such difficult and daunting times, but the road to national recovery is going to be long and hard and it will require sustained effort to ensure that your Bank remains a leader as a new, healthier economy emerges.

A year of economic hardship

The economic environment, both national and international, in which the Bank has been operating during the past year has undoubtedly been the most complex and unfavourable since the 1930s. Indeed, it has resulted in levels of unemployment and unused capacity in industry which have made one wonder if the term "recession" is not too mild a word to describe what we have been experiencing.

Domestically in 1982, corporate financial difficulties and bankruptcies proliferated and in the international area a number of borrowers found that they were unable to meet their financial commitments. These problems were exacerbated by extremely high budget deficits in both Canada and the United States and, until last fall, by a rather inflexible U.S. monetary policy. The two in combination created unusual volatility in financial markets and in interest rates. The resulting burden of debt servicing, in the context of a recession, is undoubtedly the major factor behind the problems of liquidity and solvency which have been plaguing borrowers in Canada and abroad.

In this country, the effects of the recession have proved to be particularly severe. This has partly been a result of our dependence on international trade, especially in the resource area, but it has also resulted from government policies with respect to foreign investment, energy, and taxation generally. The end-result of the various forces at work, international as well as domestic, was a decline in real Gross National Product last year of about 5% and a rise in the rate of unemployment to about 13%—the highest since the late 1930s.

Virtually every area of the economy has experienced extreme weakness in recent months, with a sharp decline in all the key indicators used for measuring economic health. None of the country's regional economies escaped the impact of recession and all experienced actual declines in production. In fact, for the first time since the 1930s not one of the provinces has recorded positive real growth.

The combination of a decline in domestic consumer spending, flagging external demand for our exports due to recession in the U.S., Europe and Japan, high interest rates and escalating production costs, caused corporate profits to drop by a record 45% in 1982. This decline in profits, coupled with a high level of idle capacity

and a deterioration in business confidence, brought about the largest decrease in real investment spending since 1933.

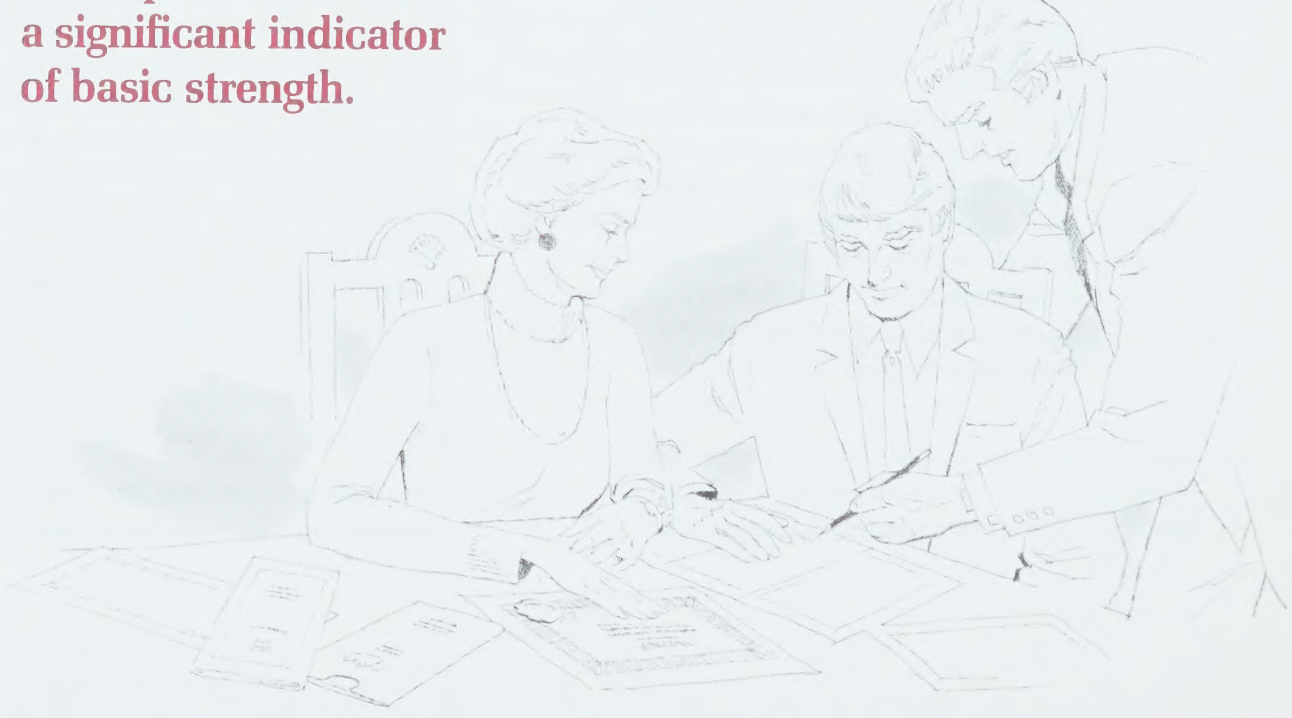
One of the hardest-hit sectors of the Canadian economy in 1982 was residential construction. Demand for new homes plunged to its lowest level in almost 20 years, despite programs designed to stimulate construction of single and multiple-family dwellings.

The drop in residential construction compounded the negative impact of high interest rates and declining real incomes on overall consumer spending and particularly spending on durable goods such as appliances, furniture and cars, which fell 10% in 1982. Many consumers experienced financial difficulties as the economic situation deteriorated and this inevitably affected the ability of some to meet their financial commitments.

The overall situation was worsened by a severe deterioration in consumer confidence. The extremely volatile behaviour of interest rates and the high level of uncertainty over economic prospects, combined with apprehension over rapidly rising unemployment, have caused consumers to become extremely cautious in their spending. This has been reflected in very high rates of personal savings despite the weak growth of income.

The current account balance—the summary of Canada's external trade in goods and services—has been the only segment of the economy to produce encouraging news. Between 1981 and 1982, the balance

In a year of unprecedented challenge we have increased our capital resources— a significant indicator of basic strength.



of the account is estimated to have swung from a deficit of $5.3 billion to a surplus of some $2 billion, the first annual surplus since 1973. In the past, Canada has generally recorded a surplus in merchandise trade but this has been offset by a growing non-merchandise deficit—a reflection of servicing costs on our large external debt, dividend payments to foreign shareholders and our proclivity to travel abroad. The deficit on services has continued to grow rapidly, but this outflow has recently been outweighed by a sharp rise in the trade surplus. Regrettably, much of the improvement is the result of widespread declines in domestic activity which have produced a precipitous drop in the volume of imports.

Nevertheless, some of the improvement in the trade balance is attributable to what can be considered a comparatively good export performance when put in the context of the very soft economic scene abroad. While certain exports have reflected the weakness of the world economy, sales in our major export market, the United States, have held up surprisingly well. The sustained sales volume is undoubtedly related both to the decline in the Canadian dollar, which has made our prices more attractive south of the border, and to strong exports of Canadian-built automobiles.

Normally, during periods of recession, governments can be expected to step in with expansionary fiscal policy to bolster the economy. However, due to record-high budget deficits even before the present downturn started, the federal government's options this time around have been extremely limited.

Largely because of the operation of the automatic stabilizers—that is, the tendency for revenues to fall during a recession while expenditures are boosted by rising social outlays such as increased unemployment insurance payouts—the federal deficit is ballooning to an estimated $24 billion in fiscal 1982-83, or more than double the original estimate.

It is clear that the dominant weaknesses in the national economy, and the economy of the world, are accurately reflected in the principal problems encountered by the Bank. In fact, this parallelism is evident in the performance of the entire banking community in Canada. However, it is encouraging to note that banking in general has experienced positive as well as negative connotations during this current recession.

On the negative side, loan losses in 1982 for the eight largest chartered banks increased substantially. In addition, the non-current loans within the system reached an all-time high, although we can expect that the majority of these loans will be restored to current status and eventually paid off.

On the positive side, we should find it impressive and reassuring that, despite the unprecedented volume of loan losses and non-current loans, the chartered banks were able to show net earnings of more than $1.5 billion. Collectively, Canada's Schedule A banks were able to increase their capital base, including debentures, to some $16.3 billion, a gain on the previous year of almost 14%. Thus, we have all been able to bring our capital/asset ratios back to the leverage level at which Canadian banks have traditionally operated.

This surely is impressive evidence of the fundamental soundness of our banking

Left to Right—R. Donald Fullerton (seated), *Vice-Chairman and President;* A. Warren Moysey, *Senior Executive Vice-President;* Frank H. Logan, *Vice-Chairman.*

system and a convincing answer to those who predict that the Canadian chartered banks are in danger of foundering on the shoals of economic instability.

The Bank's operating results in 1982

Because 1981 was such an extraordinary year, producing by far the largest earnings in Commerce history, it may tend to obscure the positive dimensions of our results in 1982. The fact is that, at $281 million, our earnings were the second-highest ever and we achieved them despite the weak and uncertain state of the economy, the continuing volatility of interest rates and a disturbing surge in loan losses. Shareholders might refer to the "Consolidated Statement of Income" on page 26 of this Annual Report.

Domestic operations produced earnings of $153 million, some 23% less than in 1981, while international earnings rose by 4% to $128 million. The generally high level of interest rates sustained during much of 1982 increased the cost of funding and eroded margins, resulting in an adverse effect on domestic earnings. The modest growth in international earnings came mostly from our United States operations and it was achieved in spite of narrowing interest margins.

At the end of a pressure-filled year, our earnings per share amounted to $6.05, a performance second only to that of 1981.

On a fully diluted basis—that is, assuming conversion of the convertible preferred shares and exercising of outstanding warrants as set out in note 7 on page 31 of this report—net income per share was $5.46.

While in a number of respects our 1982 results were encouraging, they can be seen in a truer overall perspective when we recognize that, judged by two acknowledged yardsticks—return on assets and return on equity—there is still much room for improvement in the Bank's profitability.

Our average total assets, shown on page 17, were $68.3 billion, up 14% from 1981. This increase pushed the return on assets down to 41 cents for every $100, compared with 54 cents the previous year. Less apparent but more significant is the fact that, year by year, we are steadily lifting our performance in this respect closer to the average for the five largest Canadian banks.

In return on equity—the ratio of net income applicable to common shares compared to the book value of common stock and retained earnings, plus appropriations—the Commerce fell to 12.8% from 18%. It should be noted that our return on equity compares quite favourably with that experienced by most corporations in this difficult economic climate.

The interest margins which prevailed during early 1981 were largely eroded during the past year and the rate of increase in our lending business levelled off. Average loans were up 21%, while net interest earnings were only 8% higher.

Our loss experience on loans almost tripled, reaching $488 million. The size of this increase underlines the serious effect this recession is having on borrowers.

Reflecting this surge in actual losses, our provision for loan losses has been raised by almost 50%, to $322 million in 1982 from $215 million in 1981. This charge against earnings, which is based on a formula described under "Loans" in note 1 on page 28, has increased in each of the past five years and can be expected to continue to increase, reflecting the impact of the application of the formula to future higher levels of loans.

It is worth noting that these losses are spread across the whole spectrum of borrowers from small businesses to very large corporations and involved all regions of the country.

It is satisfying to report that our efforts to strengthen the Bank's capital base are showing significant results. This was brought about by the issue of additional shares and retained earnings from 1982, coupled with the relatively low rate of growth in assets.

During 1982, the Commerce was active and innovative in the world's major capital markets, raising a total of more than $1 billion through public and privately placed financings, including two public issues of Bank debentures and an issue of deposit notes in the European markets, an issue of floating-rate certificates of deposit in the United States, and an issue of preferred shares with purchase warrants in Canada. New financings for subsidiaries included three issues of discount notes privately placed in the Asian market and an issue of debentures in the European market. Bank debentures are listed in detail in note 6 on page 30 of this report.

Our Stock Dividend Program and our Dividend Reinvestment and Share Purchase Plan (refer to note 7 on page 31), have been well received by our share-

During 1982 the Commerce was active in the world's major capital markets.

holders; during the past year just over 742,000 shares were issued under these plans, adding a further $16 million to the capital of the Bank. This represents a participation rate of approximately 16% of dividends among those eligible to take part in these plans. We are optimistic that they will continue to evolve as important sources of capital.

Your Bank succeeded in reducing the maturity mismatch on fixed-rate assets and liabilities in 1982 to the point where it should no longer have a negative impact on the profitability of the Bank. An important factor in achieving this marked improvement has been our progressive activity in the field of floating-rate mortgages, where we have established a leadership role.

The organizational structure of the Bank continued to be fine-tuned during 1982 to exploit our areas of special strength, to focus our priorities in the most meaningful directions, and to eliminate activities that prove to be unproductive, redundant or outmoded.

For example, the carefully paced program of branch rationalization and amalgamation continues to move forward, with due consideration for the interests and convenience of customers. Uneconomic branches are being taken out of operation and new ones are being opened in the most promising areas of opportunity.

To compete successfully, your Bank is committed to build a leaner, more efficient, more professional organization and the contribution made to date by our large and diverse family of employees

worldwide to the improvement to our overall health has been substantial.

We continued in our efforts to control non-interest expenses in 1982 and, as part of this program, we made a concerted effort to streamline our organization and reduce our complement. Our firm management of non-interest expenses limited their increase to only 11%, despite the pressures of inflation. We can take satisfaction from the fact that there has been a marked slowdown in the rate of rise in such expenses during the past two years.

The belt-tightening process has resulted in more responsibility and a heavier workload for many members of the personnel. However, the response of Commerce people to these essential economic disciplines has been positive and this has been one of the most satisfying aspects of the year's operations as well as a good omen for our future. Indeed, there are many heartening signs that we are becoming a much better motivated, more purposeful and co-ordinated entity.

A test of our Bank's stability

There is no question that in 1982 the stability of the Bank was tested as never before. The deadening weight of the recession descended heavily on too many enterprises, large, medium and small.

The names of high-profile companies in trouble dominated the financial news, with an understandably unsettling effect on investors and bank depositors. Similar shock waves reverberated in the international lending field, with financial crises arising in a number of countries.

As a bank historically associated with the support of Canada's resource industries, the Commerce has been deeply involved with the financing of major projects in the implementation of the economic and energy goals being pursued by our governments. Inevitably, the resource companies' problems became our problems; and the solutions we strove to achieve were directed to the preservation of basically strong and viable corporate entities.

Some of the loans made in recent years by Canadian banks, including our own, have been large by the standards of past history. This loan volume was brought about by two principal economic realities of the time.

First, high inflation and unstable interest rates compounded by the subsequent economic recession had all but eliminated the traditional sources of corporate financing, such as the bond and equity markets, thus transferring this responsibility to the banks.

Second, the trend to larger loans was accelerated by the extraordinary volume of takeover activity which occurred during the past two or three years, especially in the energy sector as a result of the so-called Canadianization program. The Canadian banks responded supportively to this activity instead of forcing it to be financed by other, more costly sources—some of them foreign.

In hindsight, the banks may have been more accommodating than they should have been, but their action reflected the perceived will of Parliament and the Canadian people. Whatever the nature of the takeovers, the function of banks is not to originate them, but to respond to the financial requirements they create.

For the future, your Bank has adopted a general guideline which limits total loans to any single customer. This now constitutes an essential part of our system of checks and balances.

The publicity given to the loan repayment difficulties of certain countries has naturally raised concerns regarding the foreign loan exposure of Canadian banks. The record will show that the Commerce has been a prudent foreign lender, using a sophisticated system of sovereign risk analysis to expand international business in growth regions while avoiding exposures in potentially unstable areas. Relative to its size, the Commerce has appreciably less risk exposure abroad than any other major Canadian chartered bank. As is noted on Page 21, there are only four foreign countries—the United States, United Kingdom, Brazil and Mexico—in which the Bank has exposure equal to even 1% of its total loans, and deposits with other banks.

Reinforcing our strengths throughout the world

The results from our U.S. operations have been gratifying. Despite adverse economic conditions, we achieved record levels of profits in 1982 and substantially increased our U.S.-based loan portfolio.

We have continued to strengthen our personnel and to position specialist individuals and teams where they can be most productive. One result is that we now have more account officers in the field seeking out profitable new business.

In line with our decision to concentrate on corporate and commercial banking, we sold 13 retail-oriented branches in California and this contributed greatly to a sizeable overall reduction in our U.S.-based personnel during the year.

Expansion in the U.S. continues to be a major thrust at the Commerce.

We also intend to expand our cash management and related activity. As well, we are launching a new leasing subsidiary which will broaden the range of services we are able to offer and generally increase our visibility as an institution with full capability to serve the corporate market.

Our Corporate Finance Group, located in Chicago, has been very productive and its role is being expanded in 1983 in terms of both human resources and industry specialization into communications, high technology, utilities, mining and transportation.

Expansion in the U.S. continues to be a major thrust and we look to our operations there for a growing contribution to earnings.

The recession, coupled with the growing number of countries having to reschedule their debts, has caused a sharp slowdown in international lending. Inevitably, the rate of increase in our European operations has slowed and this is likely to continue in 1983.

Our strategy abroad, as well as at home, is to focus on areas where we can operate profitably within a prudent level of risk. The progress of our London-based investment and merchant banking subsidiary, CIBC Limited, has been gratifying and we plan to further strengthen its presence in the wholesale marketplace during 1983. Similarly, the Bank's Asia Pacific office was expanded during the year with the addition of a Loan Syndication and Business Development Unit.

In the West Indies, our interest in Bank of Commerce Trinidad and Tobago was further reduced and now stands at less than 49% as a result of the sale of three million stock units to nationals of that country.

We are broadening our treasury services for international corporate clients, especially our money market and foreign exchange capabilities. For example, we recently set up a foreign exchange advisory service which we believe will become a sophisticated resource for current and prospective customers.

As established leaders in corporate and project financing, we have continued to refine the skills of our specialized industry teams. For example, during the past year, we concentrated our mining expertise within a separate group under the direction of a Vice-President. This move is timely and should enhance our ability to respond swiftly and creatively to our customers' needs, looking to the time when the mining industry regains its buoyancy.

Despite the world-wide downturn in oil and gas activity in 1982, we participated as agent, lead manager or co-manager in several large national and international loan syndications involving oil, natural gas and coal developments, and we provided financial support for projects involving export credit financing.

Abroad, the Commerce profile was raised in Australia when we became an important participant in financing the development of major oil and gas fields. The Martin Corporation Group Limited, in which the Commerce is a majority shareholder, has shown sound progress, which we expect to continue.

In Canada's major centres, we have been active in providing financial advice in situations involving the disposition of corporate assets and the financial structuring of large projects. Clearly our expertise is being increasingly sought by corporate customers for the development of creative and innovative solutions to financial problems.

With cash management becoming more crucial for corporate financial executives,

Left to Right—Marcel J. M. Casavant, *Executive Vice-President, Administration;* James G. Bickford, *Executive Vice-President, International;* Clarence W. Cole, *Executive Vice-President, Treasury;* Clifford J. Shirley, *Executive Vice-President, Domestic;* D. J. Griffiths, *Executive Vice-President, Corporate and Merchant Banking.*

the Commerce has established a network of regional cash management consultants whose primary responsibility is to assist customers in optimizing their cash resources. The services of these experts, backed by research and technology, have been in considerable demand—proof that we can deliver good value to an increasingly sophisticated market.

Providing timely assistance to borrowers

Although inflation abated somewhat during 1982 and interest rates moved down considerably during the second half of the year, the Commerce continued to offer assistance to householders, farmers and small businessmen who are experiencing difficulty in meeting payments for mortgages and other types of loans. In many cases, the Bank was able to arrange a restructured payment program with interest deferred.

The Commerce Householder Mortgage, which is a variable rate mortgage and which we pioneered to meet today's volatile interest rate conditions, has proven very popular with the public.

This is another example of your Bank's determination to give sympathetic consideration to customers' problems and to alleviate wherever possible the difficulties faced by mortgagors in these stringent times.

We believe that a large percentage of borrowers will continue to favour the variable-rate plan after interest rates level out or even increase moderately, because it offers more prepayment options, a greater range of monthly payment, and the fixing of an overall payment for up to five years.

In 1982, we significantly improved our share of the Canadian bank-held market for new mortgages and the variable rate mortgage was directly responsible for much of this increase.

During the year, Kinross Mortgage Corporation, a subsidiary, changed its name to

CIBC Mortgage Corporation to achieve closer identification with the Bank. While continuing with Commerce Guaranteed-Investment Certificates, CIBC Mortgage Corporation introduced three new fund-raising instruments—term certificates, discount notes and interest-bearing notes.

Throughout 1982, we assisted many farmers, fishermen and small businesses to take advantage of refinancing under the financial difficulty provisions of the Small Business Bonds Program announced in the November 1981 budget. As well, we began participating in the Small Business Investment Grant Program introduced in the June 1982 budget. It enables small businesses, including farmers and fishermen, to reduce by up to 4% their interest costs on certain investments.

Over the past two years, the Commerce has been a leading participant in granting loans under the federal Small Businesses Loans Act. In 1982, we began to offer life insurance on our business loans. This service, which provides protection to the estates of principals of both small and medium-sized businesses, has been well received.

Instant Teller is winning increasing customer acceptance.

Responding to changing customer needs

Your Bank's responsiveness to changing customer needs was perhaps best exemplified in 1982 by the successful launching of a daily interest account with chequing privileges. The Commerce Combination Account consolidates the advantages of a variety of deposit services into a single package, offering two levels of interest payment based on the size of minimum balances. Public acceptance to date has been very positive.

Further enhancements to this type of account planned for 1983 will put the Bank in a position to move to an All-Purpose Account. This is a logical development which will make it easier for our customers to manage their financial affairs and will reduce the complexity, and therefore

the cost, of managing multiple accounts for a single customer.

In June, the Commerce introduced its domestic branch customers to VISA travellers' cheques and later in the year the service was extended to our international branches.

Expansion of our Instant Teller services is accelerating and by the end of 1983 we expect almost 400 of these versatile automated banking units will be in place from Victoria to Halifax. While most of the units have been installed at branches, non-bank locations are growing and already include shopping malls, a supermarket, a hospital, the head office of a computer company, and several university campuses. Instant Teller is winning increasing customer acceptance because of its accessibility around the clock and because it delivers services efficiently and reliably.

Your Bank recognizes the value of being innovative in using computer systems to develop and implement profitable new services, as well as to improve existing procedures and practices.

During the past year, we were able to achieve significant savings through more efficient processing and continued improvement in our cheque-clearing and sorting operations. In 1983, we expect to make further savings by adopting a system that will allow us to transmit cheque information for same-day posting.

Our systems people play an important role in the management of assets and liabilities. Recently they put in place a new system for providing up-to-date information on our term deposit portfolio which is expected to yield considerable savings in 1983.

By taking advantage of new technology and constantly improving systems productivity, we have been able to increase the value of our computing assets to the operating side of the Bank. This is demonstrated by the fact that, in 1982, computer transaction volumes on our major branch on-line system rose by 14%, while the unit cost of processing these data declined by 21%.

A gradually improving economy

Turning now to the country's overall economic prospects for 1983 and beyond, it seems clear that only a very slow and gradual improvement is possible. Many countries, including our own, still suffer from undesirably high rates of inflation, or fear a resurgence of inflation. This concern limits the scope of economic stimulus. In many cases, too, historically high budget deficits continue to hamper the execution of a balanced and desirable recovery policy.

What is encouraging, however, is that we do appear to be "turning the corner" with respect to the problems of both inflation and economic recovery. True, progress is slow, but the fact that our inflation rate is now moving back into one-digit territory is encouraging, particularly in view of the vastly improved price outlook internationally. Such progress, in combination with a very hesitant recovery to date, has caused some change in economic policy emphasis, a significant turnaround in financial markets and a stepdown in interest rates that would have been difficult to imagine as recently as six months ago. This development has been of major assistance to borrowers at all levels, and it should help to build a better economic climate.

On the international scene, there are some promising signs that the United States economy is on the road to recovery. Elsewhere, too, the potential for improvement appears to exist—witness the remarkable decline in the rate of inflation in the United Kingdom. Collectively, the industrialized countries may muster a net growth rate of about 2% in 1983. Even such a modest increase would be a wel-

come change from the stagnation and actual declines in activity that have been so prevalent recently. At the same time, the rate of inflation should average about 7% in these same countries, virtually half what it was just two years ago.

Such changes in the international environment would, of course, be favourable to Canada's own prospects. In view of the modest pace of the recovery as well as the effects of government income-restraint programs, there appears to be little danger of another flare-up of inflation or a renewed major escalation of interest rates in 1983. However, the recession has left many corporations and, indeed, countries in a brittle financial situation that presents some real dangers of its own. Co-operation between business and governments, as well as with international monetary organizations, will clearly be mandatory if we are to create a sound financial basis for recovery.

Although there are many risks ahead, we are reasonably confident that some progress will be made this year towards better economic balance domestically. While inflation in Canada is abating, we also expect real growth to resume, at least by the second quarter. For 1983 as a whole, real GNP may be up by some 1½-2%. This is much less than what tends to be typical of recoveries, but at least it will be a heartening contrast to the abrupt decline of 1982.

All components of the GNP are expected to register some improvement, however tentative, but consumption will remain relatively weak because of high unemployment, depressed income growth, and numerous uncertainties. Government transfer payments have become an important part of the income stream and have served to cushion the downturn, which otherwise would have been more severe. Between 1929 and 1933, when no such "safety nets" existed, consumption in Canada declined by nearly 19%. Last year the real decline in consumer expenditures was only 2% and this year we should return to positive growth rates, with perhaps a 1% average rate of advance after inflation is deducted.

Given the poor state of corporate balance sheets, the high level of idle capacity and anticipated slow recoveries in the United States and elsewhere, no meaningful increase in investment spending is likely before 1984. While corporate profits are expected to show some improvement in 1983, the first priority of business will be to restructure badly battered balance sheets before undertaking new investment. It will take a long time to correct the overleverage or under-capitalization that has developed in recent years.

In our external accounts, another record merchandise trade surplus is projected and, at $18 billion, it will be large enough to produce another current account surplus.

A balance-of-payments situation like this would provide continued support to the Canadian dollar, which is expected to stay close to recent values. In the short run, exchange rates depend largely on monetary policy. The federal government will be anxious to ensure the success of its anti-inflationary program, so the Bank of Canada is likely to resist any downtrend in the value of the Canadian dollar and to dampen temporary fluctuations which could be unsettling to price expectations.

In summary, there appears to be a modest trend to improvement in the economy, which makes the outlook fundamentally different from the almost unanimous gloom that prevailed last year. This change can be expected to be reflected in the operations and results of your Bank through the current year.

Restoring confidence in Canada

For most Canadians, these past months have been a shattering experience, as damaging to the national spirit as to the national economy. The challenge now is not only to restore economic growth, but to rebuild national confidence.

A starting point must be greater realism in our individual and collective expectations. In understanding that, as individuals and interest groups, we cannot continue to claim more from our economy than we productively add to it. In acknowledging that governments, on our behalf, cannot continue to fund programs and services by discounting today's currency or mortgaging tomorrow's security.

There are encouraging signs that such realism is beginning to be understood and accepted by Canadians. With few exceptions, our people have supported various income restraint programs. Our governments, especially our national government in Ottawa, have shown increasing awareness of their own fiscal limitations and have acted to build a more positive and productive relationship with the private sector.

The key question now is whether we have the national will to see through this difficult period of adjustment. Some apparently do not. They would forget the hard lesson of recent months and invite a new spiral of inflation that would send interest rates back up, inflict more damage on our businesses and, inevitably, produce more, not less, unemployment.

Most Canadians appear to understand the folly of that course. Hopefully, their governments do, too. There may well be room for prudent economic stimulus, especially in support of worthwhile capital development; there undoubtedly is room for further reordering of public expenditures to give even greater emphasis to employment creation. But these policy options must be considered within a framework which fully understands that ever larger deficits will lead inexorably to more inflation.

To call for realism is not to counsel pessimism. Canadians need not fear the future. We have the resources—physical, human and spiritual—to succeed as a nation. We are making progress, especially in reducing inflation.

As is usually the case, in fact, these difficult times are also times of opportunity for Canada. We can use them to rebuild the sense of common purpose among our people that has been lost amid the clamour of narrow self-interest. We can use them, too, to better understand the challenges facing us in this ever more competitive and interdependent world and to restructure our resources to meet those challenges.

In short, amid this current adversity, there is a very real opportunity—to reunite Canadians in common purpose and together to build the lean, efficient and disciplined economy that will allow all of us to share in the bountiful potential of this nation.

Canadian Imperial Bank of Commerce is committed to making its contribution to that challenging task.

Russell E. Harrison,
Chairman and
Chief Executive Officer

January, 1983

Financial Highlights

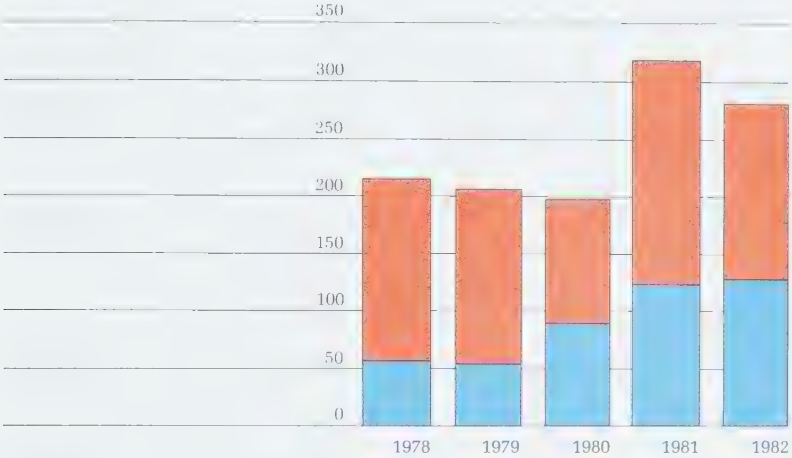
	1982	1981	Percentage Increase (Decrease)
For the Year ($ in thousands)			
Net income	**$280,840**	$320,064	(12)%
Dividends paid on preferred shares	**$ 41,613**	$ 14,760	182%
Net income applicable to common shares	**$239,227**	$305,304	(22)%
Dividends paid on common shares	**$ 82,254**	$ 74,471	10%
Average number of common shares outstanding	**39,553,611**	39,196,045	1%
Per Common Share			
Net income—basic	**$ 6.05**	$ 7.79	(22)%
—fully diluted	**$ 5.46**	$ 7.20	(24)%
Dividends	**$ 2.08**	$ 1.90	9%
Financial Ratios			
Return on average total assets	**0.41%**	0.54%	
Return on average common shareholders' equity	**12.8%**	18.0%	
Net interest margin rate on a taxable equivalent basis	**2.59%**	2.74%	
Financial Position at Year End ($ in millions)			
Total assets	**$ 68,436**	$ 65,698	4%
Loans	**$ 53,580**	$ 49,143	9%
Deposits	**$ 60,270**	$ 58,762	3%
Debentures	**$ 901**	$ 582	55%
Capital and reserves			
Preferred	**$ 460**	$ 300	53%
Common	**$ 1,920**	$ 1,834	5%
Other Statistics at Year End			
Number of common shares	**40,032,398**	39,290,397	2%
Number of common shareholders	**31,572**	32,537	(3)%
Number of employees	**34,955**	36,844	(5)%
Number of branches	**1,662**	1,710	(3)%

Note: The 1981 financial information has been restated in accordance with the provisions of the 1980 Bank Act. For further details see notes 1 and 15 of notes to the consolidated financial statements on pages 28 and 33.

Financial Review

Figure 1

Net Income
millions of dollars



millions of dollars	1978	1979	1980	1981	1982
Domestic	$158.7	$155.2	$108.3	$197.2	$152.8
International	57.2	54.5	90.1	122.9	128.0
Total Bank	$215.9	$209.7	$198.4	$320.1	$280.8
in dollars					
Per common share—basic	$ 5.94	$ 5.36	$ 5.06	$ 7.79	$ 6.05
—fully diluted	$ 5.94	$ 5.36	$ 5.06	$ 7.20	$ 5.46

Net Income

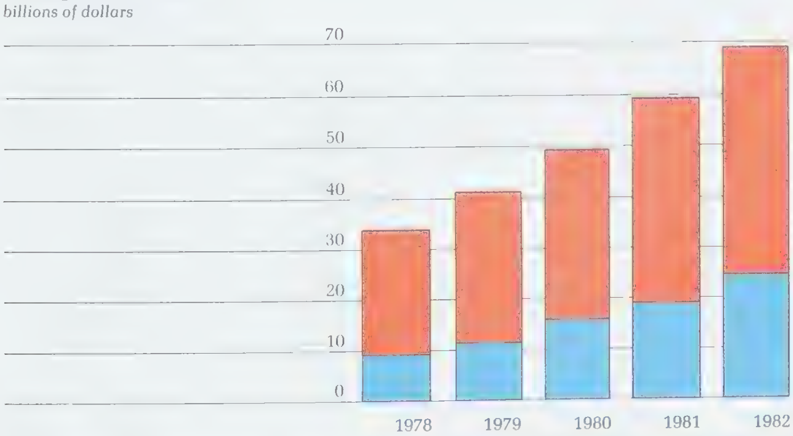
Net income for 1982 was $280.8 million, a reduction of $39.3 million or 12% from 1981, all of which took place in domestic operations resulting from lower interest margins and a higher provision for loan losses.

The basic net income per common share for 1982 was $6.05 compared with $7.79 in 1981, a reduction of 22%. The decline was sharper than that for net income because the calculation is based on net income after deducting dividends on preferred shares.

The basis of the calculation of fully diluted net income per common share is explained in note 10 of the notes to the consolidated financial statements.

Figure 2

Average Total Assets
billions of dollars



billions of dollars	1978	1979	1980	1981	1982
Domestic	$24.8	$29.3	$34.1	$41.3	$44.9
International	9.5	11.9	15.5	18.5	23.4
Total Bank	$34.3	$41.2	$49.6	$59.8	$68.3
Percentage increase year over year					
Total Bank	19.5%	20.0%	20.4%	20.6%	14.3%
Domestic	16.0	17.9	16.5	21.3	8.6
International	29.7	25.4	29.9	19.0	27.0

Average Total Assets

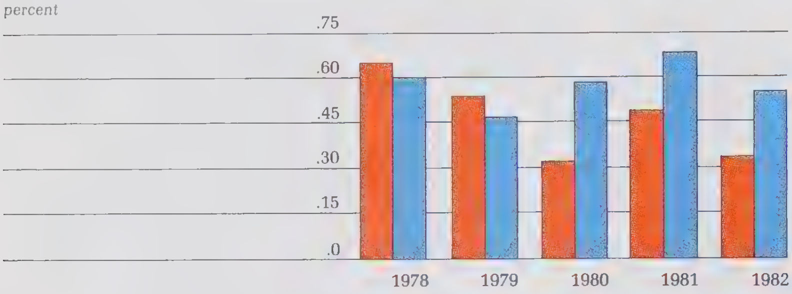
Average assets outstanding throughout 1982, showed a growth rate of 14.3% over the previous year.

However, the growth in assets moderated considerably during 1982 and total assets as at October 31, 1982 stood at $68.4 billion which is an increase of $2.7 billion or 4% from a year earlier.

Average assets are used in the measure of profitability which is explained in figure 3.

Figure 3

Return on Average Total Assets
(taxable equivalent basis)
percent



percent	1978	1979	1980	1981	1982
Net interest income	2.94	2.74	2.48	2.74	2.59
Provision for loan losses	(0.25)	(0.26)	(0.34)	(0.36)	(0.47)
	2.69	2.48	2.14	2.38	2.12
Other income	0.62	0.61	0.65	0.64	0.62
	3.31	3.09	2.79	3.02	2.74
Non-interest expenses	(2.14)	(2.10)	(2.02)	(1.97)	(1.92)
Net income before income taxes	1.17	0.99	0.77	1.05	0.82
Provision for income taxes	(0.54)	(0.48)	(0.37)	(0.51)	(0.40)
Minority interests in subsidiaries	—	—	—	—	(0.01)
Net income					
Total Bank	0.63	0.51	0.40	0.54	0.41
Domestic	0.64	0.53	0.32	0.48	0.34
International	0.60	0.46	0.58	0.67	0.55

Return on Average Total Assets

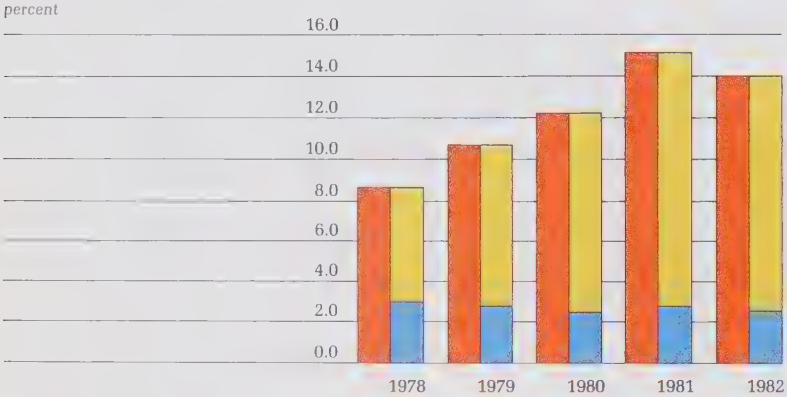
This chart shows the main components of the consolidated statement of income expressed as a percentage of average total assets. This is a common measure used to evaluate bank performance. In computing the ratio, net interest income and the provision for income taxes have been adjusted to reflect tax-exempt income from securities on a taxable equivalent basis. The ratio for net interest income (net interest margin) is discussed in figure 4.

The provision for loan losses increased in 1982 and was a major factor in the reduced profitability. Loan losses are discussed in figure 7. Non-interest expenses, on the other hand, have shown a consistent decline in ratio throughout the five years.

The overall return on assets in 1982 was 0.41%, a reduction of 0.13% from 1981 and followed the trend to lower returns shown by the Canadian banking industry during the year.

Figure 4

Net Interest Margin
(taxable equivalent basis)
percent



percent	1978	1979	1980	1981	1982
Interest income	8.57%	10.65%	12.20%	15.14%	14.00%
Interest expense	5.63	7.91	9.72	12.40	11.41
Net interest margin	2.94%	2.74%	2.48%	2.74%	2.59%
millions of dollars					
Interest income	$2,942.4	$4,384.3	$6,044.9	$9,047.8	$9,562.0
Interest expense	1,932.6	3,258.1	4,817.6	7,408.8	7,796.0
Net interest income	$1,009.8	$1,126.2	$1,227.3	$1,639.0	$1,766.0

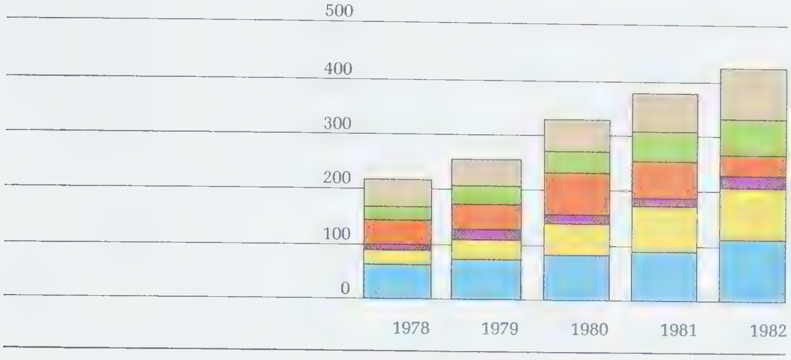
Net Interest Margin

This chart shows interest income and interest expense expressed as percentage rates on average total assets for each year. Interest rates earned on assets increased greatly between 1978 and 1982, but the interest cost of deposits increased even more; so that the net interest spread of 2.59% earned on average assets in 1982 was lower than the 2.94% of 1978. Improvements in asset-liability management were clearly having a beneficial effect by late 1982, and this benefit should be more marked in the future.

The dollar amount of net interest income increased by 75% between 1978 and 1982, but average assets (figure 2) increased by 99% in the same period, resulting in the lower percentage rate of return. Increases in net interest income result primarily from growth in assets together with the maintenance of a reasonable spread between interest rates charged on loans and paid on deposits.

Figure 5

Other Income
millions of dollars



millions of dollars

	1978	1979	1980	1981	1982
Service charges	$ 60.1	$ 71.8	$ 82.4	$ 95.9	$110.4
Loan fees	30.1	35.3	54.3	81.6	95.0
Securities	7.1	15.3	12.2	8.9	21.3
Foreign exchange	42.2	47.7	75.8	64.8	39.6
Visa	23.7	31.9	39.6	51.8	63.9
Other	48.4	51.1	56.3	75.1	96.0
Total Bank	$211.6	$253.1	$320.6	$378.1	$426.2

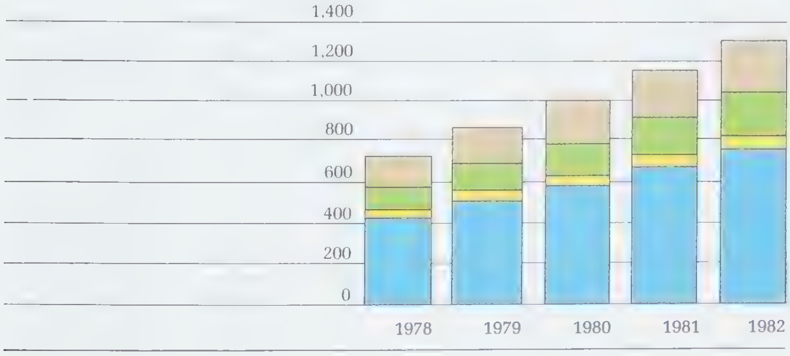
Other Income

Other income totalled $426.2 million in 1982 and showed an increase of almost 13% from the previous year.

Major initiatives continued in 1982 to recover increasing costs of services and obtain adequate compensation on loans, acceptances and guarantees. Securities income reached a new high, and benefitted primarily from a record sale of Canada Savings Bonds. Foreign exchange earnings were considerably below those of earlier years partly due to lower activity, particularly in the gold and silver market. Revenue earned on Commerce Visa continued to reflect good growth in the use of our charge card.

Figure 6

Non-Interest Expenses
millions of dollars



millions of dollars

	1978	1979	1980	1981	1982
Salaries	$431.4	$509.1	$585.7	$670.4	$759.4
Pension contributions and other staff benefits	39.2	44.0	53.2	60.5	65.4
Premises and equipment expenses, including depreciation	112.0	138.1	159.8	192.7	213.4
Other expenses	150.0	173.1	200.3	251.5	270.3
Total Bank	$732.6	$864.3	$999.0	$1,175.1	$1,308.5

Non-Interest Expenses

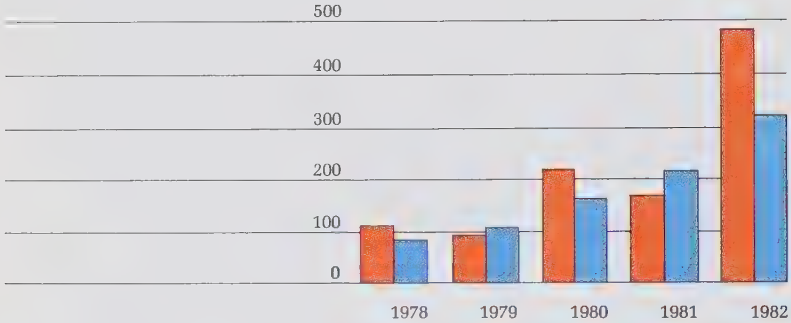
The increase in non-interest expenses of 11.4% to $1.3 billion in 1982 can be viewed with some satisfaction when compared with an average asset growth of 14.3% and an annual rate of inflation of 11.3% as measured by the Consumer Price Index. The rate of increase is well below the average annual 16% growth experienced since 1978 for such expenses.

Salaries and benefits account for more than 63% of the total expenses. Personnel cost controls were reinforced in 1982 and are showing good results.

A 10.7% increase in premises and equipment expenses is attributable to greater utilization of computer equipment; all other expenses rose by only 7.5%.

Figure 7

Loan Loss Experience
millions of dollars



millions of dollars	1978	1979	1980	1981	1982
Loss experience on loans for the year	$109.5	$ 99.4	$222.3	$167.9	$488.1
Provision for loan losses included in consolidated statement of income	86.6	108.8	167.1	215.2	321.7
Eligible loans outstanding	$21,154	$26,620	$34,199	$45,627	$55,185
Loan loss experience for the year —as percentage of eligible loans	0.52%	0.37%	0.65%	0.37%	0.88%

Note:
Eligible loans are as prescribed by the rules of the Minister of Finance and include letters of credit, acceptances and guarantees, but exclude loans to, or guaranteed by, the governments of Canada, the Provinces, the United States and the United Kingdom, and also exclude deposits with other banks.

Loan Loss Experience

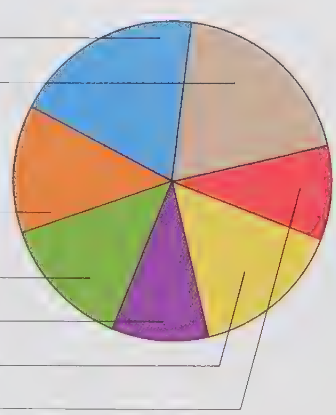
Loan loss experience comprises loans written off directly in the current year and the current year's specific provisions for doubtful loans, less recoveries and prior years' specific provisions no longer required. Loan loss experience in 1982 rose to $488.1 million, an increase of $320.2 million from 1981. Domestic operations—business and other loans, consumer loan plans and Visa — accounted for $428.2 million and international $59.9 million. The sharp increase reflects the effect which the severe downturn in the economy both in Canada and abroad has had on the Bank's customers.

The provision for loan losses is calculated in accordance with a formula prescribed by the Minister of Finance and takes into account the average ratio of loss experience to eligible loans over the past five years which is then applied to the eligible loans outstanding at the end of the year. For 1982 the average five years' ratio was 0.59%.

Figure 8

Canadian Currency Loans
as at September 30, 1982

	billions	
Mortgages	$ 6.9	19%
Personal	6.9	19
Business loans by major sectors:		
Agricultural and natural resources	4.6	13
Manufacturing and transportation	5.0	14
Construction	3.6	10
Trades and service	5.7	16
Other	2.8	9
Total	$35.5	100%



Canadian Currency Loans

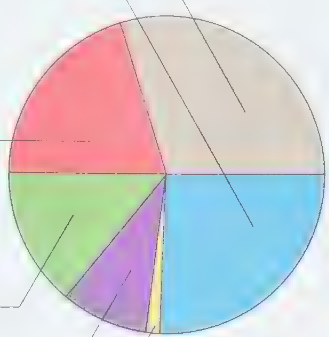
Of the $53.8 billion in total loans and mortgages outstanding at September 30, 1982, $35.5 billion or 66% were in Canadian dollars and $18.3 billion in foreign currencies. The latter are analyzed with other major foreign currency assets in figure 9.

The distribution of the Canadian currency loans, as shown in figure 8, indicates that 38% of these are for mortgages and to individuals, mainly for consumer goods, services and other personal expenditures. In dollar terms, mortgage loans showed a modest 6% growth in 1982 but our market share has increased as we have endeavoured to serve this sector in difficult times by introducing new and flexible forms of mortgages.

Figure 9

Geographic Distribution of Major Foreign Currency Assets
(by location of ultimate risk)
as at September 30, 1982

	millions	
United States	$ 6,565	29.7%
Canada	5,697	25.8
United Kingdom	1,317	6.0
France	469	2.1
Other European Economic Community Countries	1,662	7.6
Other European Countries	1,046	4.7
Europe	4,494	20.4
Mexico	797	3.6
Brazil	931	4.2
Other Latin American Countries	913	4.2
Caribbean	561	2.5
Latin America and Caribbean	3,202	14.5
Asia	1,313	6.0
Australia	473	2.1
Other Pacific Countries	60	0.3
Asia and Pacific	1,846	8.4
Middle East	95	0.4
Africa	182	0.8
Middle East and Africa	277	1.2
Total	$22,081	100.0%



Geographic Distribution of Major Foreign Currency Assets

Major foreign currency assets consist of loans, securities and deposits with other banks.

Management places strong emphasis on monitoring the Bank's exposure to country risk by continuous analysis of the political and economic situation in each country. Over 55% of the total risk relates to North America, where most of the growth in these assets took place during the past year, and a further 20% relates to Europe.

The only countries where the total exposure in Canadian and foreign currencies exceeded 1% of the total loans, and deposits with other banks as at September 30, 1982 were Canada, United States, United Kingdom, Mexico and Brazil.

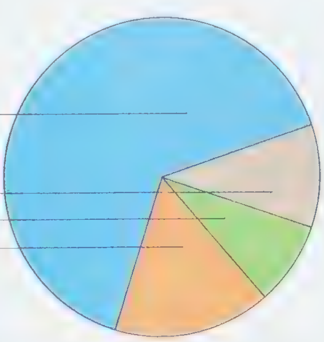
A percentage breakdown of the major foreign currency assets by level of country development is as follows:

Industrialized countries	76.1%
Developing countries:	
Higher income and oil exporting	5.4
Middle income	16.9
Low income	0.7
Centrally planned countries	0.9
	100.0%

Figure 10

Geographic Distribution of Total Interest Income
for the year ended October 31, 1982

	millions	
Domestic Operations	$6,088.6	65.1%
International Operations		
United States	980.3	10.4
Canada	793.4	8.5
Others	1,495.5	16.0
	3,269.2	34.9
Total	$9,357.8	100.0%



Geographic Distribution of Total Interest Income

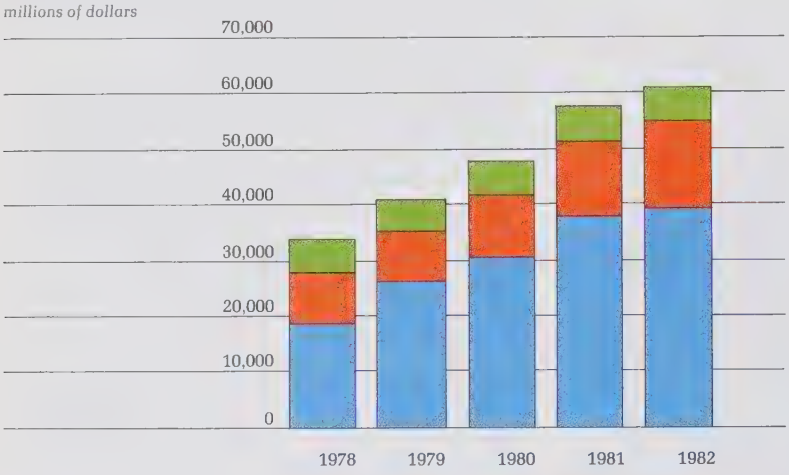
This chart provides a geographical breakdown by place of booking of total interest and dividend earnings reported in the consolidated statement of income.

International operations comprise all operations of the Bank and its subsidiaries domiciled outside Canada plus the contribution to international activities from the International Department and International Regional Office both of which are located in Canada.

Except as shown in figure 10, income booked in any one country did not exceed 10% of the total.

Figure 11

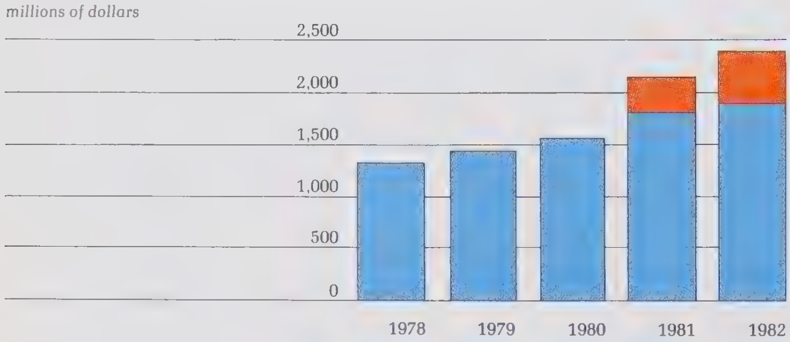
Deposits
as at October 31
millions of dollars



millions of dollars						1982 % mix
Payable on demand	$ 5,926	$ 5,797	$ 6,108	$ 6,346	$ 5,341	8.9
Payable after notice	9,766	9,413	11,462	13,640	14,981	24.8
Payable on a fixed date	19,092	26,096	30,915	38,776	39,948	66.3
Total Bank	$34,784	$41,306	$48,485	$58,762	$60,270	100.0

Figure 12

Capital and Reserves
as at October 31
millions of dollars



millions of dollars					
Appropriations for contingencies	$ 116	$ 146	$ 91	$ 156	$ 165
Common shares (including contributed surplus)	242	247	247	251	267
Retained earnings	948	1,086	1,213	1,427	1,488
Total common shareholders' equity and reserves	$1,306	$1,479	$1,551	$1,834	$1,920
Preferred shares	—	—	—	300	460
Total capital and reserves	$1,306	$1,479	$1,551	$2,134	$2,380
Total capital and reserves as percentage to total assets	3.49%	3.29%	2.86%	3.25%	3.48%

Deposits

Total deposits are divided into (1) those that are payable on demand—that is, low-cost deposits, comprising such accounts as current and personal chequing—and (2) those that are payable after notice and on a fixed date—that is, high-cost deposits. At the end of 1978, 17.0% of total deposits were in the low-cost category; by the end of 1982 this dropped to 8.9%.

Progressively slower growth in assets during 1982 resulted in reduced opportunities for profitable deployment of deposit funds. Deposits from individuals obtained through the branch system continued to grow strongly, increasing by 23% during the year, and this eased the need to seek more costly and volatile term deposits from corporate and institutional sources.

In 1982 in spite of a declining trend during the year, interest rates remained at relatively high levels and depositors continued to seek to maximize their returns. As a result, the higher interest bearing types of deposits continued to grow, while demand deposits declined.

Capital and Reserves

Total common shareholders' equity and reserves increased by $86 million in 1982 as the strengthening of the Bank's capital base continues. $16 million came from the issue of additional shares under the dividend reinvestment and share purchase plan and stock dividend program, and $70 million came from the growth in retained earnings and reserves, after providing for loan losses and dividends. In February 1982, $150 million of Class A Preferred Shares, Series 2, were issued. These shares carried warrants to purchase additional similar shares on or before February 15, 1983, and by October 31, 1982 an additional $10 million in shares had been issued on exercise of warrants. The exercise of the remaining warrants is expected to result in the issue of a further $140 million of this class of preferred shares in 1983.

The ratio of total capital and reserves to total assets has been strengthened from a low of 2.86% at the end of 1980 to 3.48% at the end of 1982.

Selected Common Share Information

	1982	1981	1980	1979	1978
Average common shares outstanding (1)	**39,553,611**	39,196,045	39,195,000	39,153,843	36,322,273
Common share price (2)—high	**$ 31⅝**	$ 32⅛	$ 29⅞	$ 31¼	$ 31½
—low	**$ 16¼**	$ 25	$ 22	$ 23	$ 22
—close	**$ 25⅛**	$ 28½	$ 25½	$ 23½	$ 29¼
Net income per common share—basic	**$ 6.05**	$ 7.79	$ 5.06	$ 5.36	$ 5.94
—fully diluted	**$ 5.46**	$ 7.20	$ 5.06	$ 5.36	$ 5.94
Dividends per common share	**$ 2.08**	$ 1.90	$ 1.80	$ 1.60	$ 1.45
Book value per common share (3)	**$47.95**	$46.69	$39.57	$37.73	$33.33
Return on average common shareholders' equity (4)	**12.8%**	18.0%	13.1%	15.1%	18.3%

NOTES:

(1) Represents the daily average number of equivalent fully paid shares outstanding.

(2) The high, low during the year and closing common share price on the last trading day of the year, on The Toronto Stock Exchange.

(3) Common shareholders' equity plus appropriations for contingencies divided by the number of common shares issued and outstanding at year-end.

(4) Net income for the year applicable to common shareholders divided by the average balances of common shareholders' equity and reserves for the year.

Quarterly Financial Highlights

	1982				1981			
	October 31	**July 31**	**April 30**	**January 31**	October 31	July 31	April 30	January 31
For the Quarter —taxable equivalent basis ($ in thousands)								
Interest and dividend income*	**$ 2,285,941**	**$ 2,487,872**	**$ 2,330,612**	**$ 2,457,620**	$ 2,695,705	$ 2,449,647	$ 2,036,009	$ 1,866,425
Interest expense	**1,821,990**	**2,014,819**	**1,908,833**	**2,050,385**	2,295,304	1,995,497	1,650,452	1,467,518
Net interest income	**463,951**	**473,053**	**421,779**	**407,235**	400,401	454,150	385,557	398,907
Provision for loan losses	**86,679**	**92,400**	**82,078**	**60,522**	55,184	60,092	52,794	47,118
Net interest income after loan loss provision	**377,272**	**380,653**	**339,701**	**346,713**	345,217	394,058	332,763	351,789
Other income	**117,637**	**110,458**	**101,563**	**96,544**	105,508	97,404	89,620	85,554
Net interest and other income	**494,909**	**491,111**	**441,264**	**443,257**	450,725	491,462	422,383	437,343
Non-interest expenses	**316,656**	**331,628**	**339,662**	**320,505**	312,380	295,220	293,173	274,362
Net income before provision for income taxes	**178,253**	**159,483**	**101,602**	**122,752**	138,345	196,242	129,210	162,981
Provision for income taxes*	**92,822**	**74,628**	**47,794**	**61,366**	65,975	94,627	63,385	80,750
Net income before minority interests in subsidiaries	**85,431**	**84,855**	**53,808**	**61,386**	72,370	101,615	65,825	82,231
Minority interests in subsidiaries	**878**	**1,250**	**1,288**	**1,224**	865	418	360	334
Net income for the quarter	**$ 84,553**	**$ 83,605**	**$ 52,520**	**$ 60,162**	$ 71,505	$ 101,197	$ 65,465	$ 81,897
Dividends paid on preferred shares	**$ 11,923**	**$ 11,852**	**$ 11,351**	**$ 6,487**	$ 6,098	$ 4,612	$ 4,050	$ —
Net income applicable to common shares	**$ 72,630**	**$ 71,753**	**$ 41,169**	**$ 53,675**	$ 65,407	$ 96,585	$ 61,415	$ 81,897
Dividends paid on common shares	**$ 20,725**	**$ 20,594**	**$ 20,504**	**$ 20,431**	$ 19,598	$ 18,813	$ 18,422	$ 17,638

*Tax-exempt income from securities has been converted to a taxable equivalent basis. Provision for income taxes has been increased by a corresponding amount.

	October 31	July 31	April 30	January 31	October 31	July 31	April 30	January 31
Average number of common shares outstanding	**39,863,421**	**39,614,609**	**39,436,104**	**39,296,478**	39,199,147	39,195,000	39,195,000	39,195,000
Per Common Share								
Net income—basic	**$1.83**	**$1.81**	**$1.04**	**$1.37**	$1.67	$2.46	$1.57	$2.09
—fully diluted	**$1.63**	**$1.62**	**$0.97**	**$1.24**	$1.49	$2.22	$1.40	$2.09
Dividends	**52¢**	**52¢**	**52¢**	**52¢**	50¢	48¢	47¢	45¢
At End of Quarter ($ in thousands)								
Total assets	**$68,436,251**	**$69,416,070**	**$68,664,178**	**$66,931,478**	$65,697,710	$63,861,379	$58,388,340	$56,646,620
Appropriations for contingencies	**$ 165,125**	**$ 50,301**	**$ 135,551**	**$ 165,051**	$ 156,551	$ 122,842	$ 115,867	$ 105,917
Shareholders' equity								
Preferred	**459,968**	**450,999**	**450,047**	**300,000**	300,000	225,000	225,000	—
Common	**1,754,484**	**1,794,408**	**1,740,268**	**1,714,763**	1,677,924	1,641,542	1,563,818	1,524,764
Capital and reserves	**$ 2,379,577**	**$ 2,295,708**	**$ 2,325,866**	**$ 2,179,814**	$ 2,134,475	$ 1,989,384	$ 1,904,685	$ 1,630,681

CANADIAN IMPERIAL
BANK OF COMMERCE

Consolidated Statement of Assets and Liabilities

as at October 31, 1982
(in thousands of dollars)

ASSETS	1982	1981
		Restated (Note 15)
Cash Resources		
Cash and deposits with Bank of Canada	**$ 1,500,565**	$ 1,735,193
Deposits with other banks	**3,107,127**	4,878,220
Cheques and other items in transit, net	**723,348**	996,212
	5,331,040	7,609,625
Securities (Note 2)		
Issued or guaranteed by Canada	**2,032,493**	2,575,833
Issued or guaranteed by provinces and municipal or school corporations	**26,692**	64,694
Other securities	**2,706,785**	2,349,979
	4,765,970	4,990,506
Loans		
Day, call and short loans to investment dealers and brokers, secured	**575,326**	251,393
Loans to banks	**1,616,491**	1,697,895
Mortgage loans	**7,063,770**	6,672,443
Other loans	**44,324,697**	40,521,590
	53,580,284	49,143,321
Other		
Customers' liability under acceptances	**2,973,025**	2,475,891
Land, buildings and equipment (Note 3)	**635,653**	622,457
Other assets	**1,150,279**	855,910
	4,758,957	3,954,258
	$68,436,251	$65,697,710

See notes to the consolidated financial statements

Auditors' Report to the Shareholders

We have examined the consolidated statement of assets and liabilities of Canadian Imperial Bank of Commerce as at October 31, 1982 and the consolidated statements of income, appropriations for contingencies and changes in shareholders' equity for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

LIABILITIES	1982	1981
		Restated (Note 15)
Deposits (Note 4)		
Payable on demand	**$ 5,341,308**	$ 6,346,357
Payable after notice	**14,980,466**	13,640,291
Payable on a fixed date	**39,948,353**	38,775,708
	60,270,127	58,762,356
Other		
Acceptances	**2,973,025**	2,475,891
Liabilities of subsidiaries, other than deposits (Note 5)	**63,861**	99,826
Other liabilities	**1,816,406**	1,606,988
Minority interests in subsidiaries	**31,935**	36,179
	4,885,227	4,218,884
Subordinated Debt		
Bank debentures (Note 6)	**901,320**	581,995
Capital and Reserves		
Appropriations for contingencies	**165,125**	156,551
Shareholders' equity		
Capital stock (Note 7)	**726,428**	378,581
Contributed surplus	**—**	171,653
Retained earnings	**1,488,024**	1,427,690
	2,379,577	2,134,475
	$68,436,251	$65,697,710

R. E. HARRISON
Chairman
and Chief Executive Officer

R. D. FULLERTON
Vice-Chairman
and President

In our opinion, these consolidated financial statements present fairly the financial position of the Bank as at October 31, 1982 and the results of its operations for the year then ended in accordance with prescribed accounting principles applied, after giving retroactive effect to the changes required by the revised Bank Act, on a basis consistent with that of the preceding year.

Peat, Marwick, Mitchell & Co.
Price Waterhouse
} Auditors

Toronto, Canada. December 1, 1982.

Consolidated Statement of Income

For the year ended October 31, 1982
(in thousands of dollars)

	1982	1981 Restated (Note 15)
Interest Income		
Income from loans, excluding leases	**$ 8,169,318**	$ 7,370,137
Income from lease financing	**34,980**	30,312
Income from securities	**559,937**	573,360
Income from deposits with banks	**593,600**	884,777
Total interest income, including dividends	**9,357,835**	8,858,586
Interest Expense		
Interest on deposits	**7,687,365**	7,337,683
Interest on bank debentures	**92,659**	53,085
Interest on liabilities other than deposits	**16,003**	18,003
Total interest expense	**7,796,027**	7,408,771
Net interest income	**1,561,808**	1,449,815
Provision for loan losses	**321,679**	215,188
Net interest income after loan loss provision	**1,240,129**	1,234,627
Other income	**426,202**	378,086
Net interest and other income	**1,666,331**	1,612,713
Non-Interest Expenses		
Salaries	**759,361**	670,372
Pension contributions and other staff benefits (Note 8)	**65,423**	60,517
Premises and equipment expenses, including depreciation	**213,357**	192,681
Other expenses	**270,310**	251,565
Total non-interest expenses	**1,308,451**	1,175,135
Net income before provision for income taxes	**357,880**	437,578
Provision for income taxes (Note 9)	**72,400**	115,537
Net income before minority interests in subsidiaries	**285,480**	322,041
Minority interests in subsidiaries	**4,640**	1,977
Net income for the year	**$ 280,840**	$ 320,064
Average number of common shares outstanding		
Basic	**39,553,611**	39,196,045
Fully diluted	**49,423,840**	44,598,429
Net income per common share (Note 10)		
Basic	**$6.05**	$7.79
Fully diluted	**$5.46**	$7.20

See notes to the consolidated financial statements

Consolidated Statement of Appropriations for Contingencies

For the year ended October 31, 1982
(in thousands of dollars)

	1982	1981
		Restated (Note 15)
Balance at beginning of year (including tax-paid appropriations of nil)	**$ 156,551**	$ 90,567
Deduct net loss experience on loans	**(488,105)**	(167,904)
Add provision for loan losses included in consolidated statement of income	**321,679**	215,188
Transfer from retained earnings	**175,000**	18,700
Balance at end of year (including tax-paid appropriations of nil)	**$ 165,125**	$ 156,551

Consolidated Statement of Changes in Shareholders' Equity

For the year ended October 31, 1982
(in thousands of dollars)

	1982	1981
		Restated (Note 15)
Capital Stock (Note 7)		
Balances at beginning of year	**$ 378,581**	$ 78,390
Add: Increases during the year		
Preferred shares	**159,968**	300,000
Common shares	**16,226**	191
Transfer from contributed surplus	**171,653**	—
Balances at end of year	**$ 726,428**	$ 378,581
Contributed Surplus (Note 7)		
Balance at beginning of year	**$ 171,653**	$ 169,143
Additions from capital stock issues	**—**	2,510
Transfer to capital stock	**(171,653)**	—
Balance at end of year	**$ —**	$ 171,653
Retained Earnings		
Balance at beginning of year	**$1,427,690**	$1,212,972
Prior period adjustment (Note 11)	**1,828**	—
Expenses of issue of shares (net of income taxes of $2,535; 1981: $5,600) (Note 9)	**(2,467)**	(5,251)
Net income for the year	**280,840**	320,064
Dividends (Note 12)	**(123,867)**	(89,231)
Transfer to appropriations for contingencies	**(175,000)**	(18,700)
Income taxes related to the above transfer (Note 9)	**79,000**	7,836
Balance at end of year	**$1,488,024**	$1,427,690

See notes to the consolidated financial statements

Notes to the Consolidated Financial Statements

1. **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The Bank's financial statements have been prepared in accordance with accounting principles prescribed by the provisions of the 1980 Bank Act and the rules and regulations issued thereunder by the Minister of Finance.

Under the provisions of the 1980 Bank Act, financial statements for 1982 onwards are to be prepared in a format and on a basis which is different to that under the 1967 Bank Act. The Bank's 1981 financial statements, which were prepared under the provisions of the 1967 Bank Act, have been restated in order to be comparable and consistent with the 1982 financial statements. The impact of this restatement is described in Note 15.

The following is a summary of the significant accounting policies and practices under the provisions of the 1980 Bank Act:

Basis of Consolidation

The financial statements include the accounts of all subsidiaries on a consolidated basis. Intercompany accounts and transactions have been eliminated.

Investments in associated corporations (20% to 50% owned companies) are accounted for by the equity method and included in other securities in the consolidated statement of assets and liabilities. The Bank's share of earnings from associated corporations is included in income from securities in the consolidated statement of income.

A list of subsidiaries and other corporations in which the Bank owns more than ten per cent of the voting shares as at October 31, 1982 is annexed to these financial statements in accordance with Section 216(4) of the 1980 Bank Act.

Securities

Debt securities held for investment are carried at cost, adjusted for amortization of premiums or accretion of discounts to maturity. Equity securities, apart from investments in associated corporations, are carried at cost. If the value of securities held for investment is permanently impaired, the carrying value is appropriately reduced. Securities held for trading are carried at market value.

Gains and losses on sale of Government of Canada treasury bills are included in income; gains and losses on sale of other fixed maturity debt securities are deferred and amortized to income over a five year period on a straight line basis. The amortization of premiums and discounts and all gains and losses on other securities, including the valuation to market of securities held for trading and adjustments to record any permanent impairment in value of securities held for investment, are included in income from securities in the consolidated statement of income.

Loans

Loans are stated net of any unearned income and of any specific provisions established to recognize anticipated losses.

The net loss experience on loans for a year comprises the amount of loans written off directly in the current year and the current year's specific provisions for doubtful loans, less recoveries and prior years' specific provisions no longer required. This amount is charged to appropriations for contingencies—tax allowable portion in the case of the parent bank and tax paid portion for subsidiaries.

The provision for loan losses included in the consolidated statement of income is credited to appropriations for contingencies—tax allowable portion in the case of the parent bank and tax paid for subsidiaries. The amount is determined for the parent bank and for each individual subsidiary separately by computing the weighted average ratio of net loan loss experience to eligible loans outstanding for the current and four preceding years and applying this five year average ratio to the outstanding eligible loans at the end of the current financial year.

Interest is recorded on the accrual basis for all satisfactory loans and such accrued and unpaid interest on loans is reported in other assets in the consolidated statement of assets and liabilities. A loan is classified as unsatisfactory when, in the opinion of management, there are clear indications that loss may be suffered by the Bank either as to principal or interest, or if there are other circumstances that indicate that the account will prove difficult to collect in full within a reasonable period. In such a case, interest accrual is discontinued until the circumstances giving rise to unsatisfactory classification no longer exist. All uncollected interest on an unsatisfactory loan previously recorded in the current year is reversed against interest income; uncollected interest relating to a prior financial year is added to the principal amount.

Land, Buildings and Equipment

Land is carried at cost; buildings and equipment, including leasehold improvements, are carried at cost less accumulated depreciation. Appropriate rates of depreciation are used to allocate the cost of the assets over their expected useful lives.

Appropriations for Contingencies

The Bank maintains an appropriations for contingencies account, in addition to the specific provisions for losses which are deducted from loans, to provide for possible unidentified future losses on loans. The account consists of two portions—tax allowable and tax paid. Transactions through the tax allowable portion consist of the net loss experience on loans of the parent bank and the provision for loan losses charged to the consolidated statement of income (described under Loans) together with tax deductible transfers from retained earnings which are subject to a cumulative limit prescribed by the Minister of Finance. The net loss experience on loans and the provision for loan losses charged to the consolidated statement of income in respect of subsidiaries and transfers from retained earnings in excess of the prescribed limit form the tax paid portion of the appropriations for contingencies account.

Foreign Currency Translation

All assets and liabilities held in foreign currencies are translated into Canadian dollars at rates prevailing at the date of the financial statements with the following exceptions—investments in foreign currency securities and fixed assets when purchased with Canadian dollars are carried at historic cost. Revenue and expenses in foreign currencies are translated into Canadian dollars using average exchange rates for the year. Realized and unrealized gains and losses on foreign currency positions are reported in the current year, with the exception of premiums and discounts on deposit swaps which are amortized to maturity as interest, in the consolidated statement of income.

Direct Financing Leases

Initial direct costs on leases are expensed as incurred. At the inception of a lease, an amount of unearned finance income, equal to the initial direct costs, is recognized as income and the remainder is taken into income over the lease term to produce a constant rate of return on the investment in the lease.

Notes to the Consolidated Financial Statements (continued)

1. **SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES** *(continued)*

Income Taxes

The Bank provides for income taxes under the tax allocation basis of accounting whereby income taxes are provided for in the year in which the related income is reflected in the financial statements. Deferred income tax provisions resulting from timing differences in the recognition of income and expense for income tax and financial statement purposes are included in other liabilities or other assets, whichever is appropriate, in the consolidated statement of assets and liabilities.

2. **SECURITIES** ($ in thousands)

The analysis of securities by type of security is as follows:

	1982	1981
Securities, at amortized value, issued or guaranteed by:		
Canada:		
Treasury bills	**$1,493,195**	$1,812,905
Other securities maturing within three years	**—**	172,855
Other securities	**303,847**	325,026
Provinces	**21,869**	52,467
Municipal or school corporations in Canada	**4,450**	12,201
	1,823,361	2,375,454
Other securities:		
Debt of Canadian issuers, at amortized value:		
Income debentures	**489,670**	511,533
Small business development bonds and small business bonds	**77,160**	58,408
Other	**183,475**	53,485
Debt of foreign issuers, at amortized value	**306,954**	300,581
	1,057,259	924,007
Equities of Canadian issuers, at cost:		
Term preferred shares	**1,512,445**	1,285,833
Other	**57,659**	52,196
Equities of foreign issuers, at cost	**9,595**	14,740
	1,579,699	1,352,769
Securities of associated corporations:		
Shares, valued on the equity method	**69,827**	67,703
Other, at amortized value	**—**	5,500
	69,827	73,203
Total securities held for investment	**4,530,146**	4,725,433
Securities held for trading, at market value	**235,824**	265,073
Total securities, at carrying value	**$4,765,970**	$4,990,506

The maturity analysis of the above securities, at carrying values, is as follows:

	Securities issued or guaranteed by:		Other securities		1982	1981
Year of maturity:	Canada	Provinces and municipal or school corporations	Debt	Equity	Total	Total
Within 1 year	**$1,727,216**	**$ 6,773**	**$ 200,608**	**$ 68,082**	**$2,002,679**	$2,412,236
Over 1 to 3 years	**101**	**1,822**	**222,003**	**167,402**	**391,328**	443,366
Over 3 to 5 years	**94,625**	**11,632**	**321,853**	**233,097**	**661,207**	422,999
Over 5 to 10 years	**2**	**1,437**	**161,544**	**914,242**	**1,077,225**	1,021,981
Over 10 years	**210,549**	**5,028**	**151,251**	**142,972**	**509,800**	569,860
No specific maturity	**—**	**—**	**—**	**123,731**	**123,731**	120,064
	$2,032,493	**$ 26,692**	**$1,057,259**	**$1,649,526**	**$4,765,970**	$4,990,506

3. **LAND, BUILDINGS AND EQUIPMENT** ($ in thousands)

The analysis is as follows:

	1982			1981
	Cost	Accumulated Depreciation	Net Book Value	Net Book Value
Land	**$108,355**	**$ —**	**$108,355**	$100,854
Buildings	**442,716**	**122,385**	**320,331**	323,689
Equipment	**276,126**	**115,376**	**160,750**	152,971
Leasehold improvements	**82,747**	**36,530**	**46,217**	44,943
	$909,944	**$274,291**	**$635,653**	$622,457

Depreciation and amortization in respect of the above buildings, equipment and leasehold improvements for the year amounted to $42,555 (1981: $35,705).

Notes to the Consolidated Financial Statements (continued)

4. **DEPOSITS** ($ in thousands)
The analysis of deposits by type of depositor is as follows:

	1982				1981
	Payable on demand	Payable after notice	Payable on a fixed date	Total	Total
Deposits by Canada	$ 659,488	$ —	$ —	$ 659,488	$ 856,587
Deposits by provinces	69,029	43,344	683,410	795,783	368,924
Deposits by banks	317,451	290,999	12,827,118	13,435,568	13,408,603
Deposits by individuals	859,421	13,468,529	12,032,640	26,360,590	21,476,359
Other deposits	3,435,919	1,177,594	14,405,185	19,018,698	22,651,883
	$ 5,341,308	$14,980,466	$39,948,353	$60,270,127	$58,762,356

5. **LIABILITIES OF SUBSIDIARIES, OTHER THAN DEPOSITS** ($ in thousands)
These consist of the following liabilities of Commerce-UD Inc. (formerly United Dominions Corporation (Canada) Limited):

	1982	1981
Senior secured notes:		
Short-term	$ 52,111	$ 67,371
Long-term	8,864	22,454
Junior secured debentures:		
Long-term	2,886	10,001
	$ 63,861	$ 99,826

6. **BANK DEBENTURES** ($ in thousands)
Bank debentures, which are unsecured and subordinated to deposits and other liabilities, comprise:

	1982	1981
7¼% Debentures maturing December 15, 1992	$ 741	$ 756
7½% Debentures maturing May 15, 1993	1,234	1,249
9¾% Debentures maturing January 2, 1995 (the holder of any debenture may elect that such debenture mature on January 2, 1985)	75,000	75,000
9½% Debentures maturing October 15, 1996 (the holder of any debenture may elect that such debenture mature on October 15, 1986)	50,000	50,000
9¼% Debentures maturing February 15, 1998 (the holder of any debenture may elect that such debenture mature on February 15, 1988)	75,000	75,000
10.10% Debentures maturing June 15, 1984	100,000	100,000
Floating Rate Debentures maturing July 15, 1989 (the debentures bear interest at a rate equal to the average prime rate of the Bank less ⅝ of 1%)	50,000	50,000
13½% Debentures maturing May 15, 1985	50,000	50,000
11½% Debentures maturing July 15, 1985	60,000	60,000
16¾% Debentures maturing October 15, 1991 (U.S. $100,000)	122,550	119,990
15¾% Debentures maturing January 15, 1989	75,000	—
Floating Rate Debentures maturing July 15, 1994 (the U.S. $200,000 Debentures bear interest at a rate equal to the average London Inter-Bank Offer Rate plus ¼ of 1%)	245,100	—
	904,625	581,995
Deduct holdings by a consolidated subsidiary in its trading account, pending resale	3,305	—
	$901,320	$581,995

Notes to the Consolidated Financial Statements (continued)

7. CAPITAL STOCK

Authorized:

Preferred Shares:

30,000,000—Class A without par value issuable for an aggregate consideration not exceeding $750,000,000.

30,000,000—Class B without par value issuable for an aggregate consideration not exceeding $750,000,000.

Common Shares:

200,000,000—without par value issuable for an aggregate consideration not exceeding $3,000,000,000.

During the year, the authorized Common Shares of the Bank were changed and increased from 62.5 million Common Shares with a par value of $2 each to 200 million Common Shares without par value issuable for an aggregate consideration not exceeding $3 billion.

Issued and fully paid: ($ in thousands)

	Shares		Amount	
	1982	1981	**1982**	1981
Class A Preferred Shares:				
Series 1, issued for cash in 1981	**3,000,000**	3,000,000	**$ 75,000**	$ 75,000
Series 2, issued for cash in 1982	**6,398,700**	—	**159,968**	—
Class B Preferred Shares:				
Series 1, issued for cash in 1981	**9,000,000**	9,000,000	**225,000**	225,000
			459,968	300,000
Common Shares:				
At beginning of year	**39,290,397**	39,195,000	**78,581**	78,390
Issued during the year	**742,001**	95,397	**16,226**	191
Transfer from contributed surplus	**—**	—	**171,653**	—
At end of year	**40,032,398**	39,290,397	**266,460**	78,581
Total Capital Stock			**$726,428**	$378,581

During the year the Common Shares were redesignated as without par value. In accordance with Section 120(4) of the 1980 Bank Act the contributed surplus, all of which was attributable to these Common Shares, was added to the paid-in capital account of the Bank maintained for the shares of that class and deducted from the contributed surplus account.

Share rights and privileges:

$2.50 Class A Preferred Shares Series 1

These shares bear cumulative $2.50 dividends and are redeemable by the Bank after August 20, 1986 at the issue price of $25 per share. The holder may elect on or before July 20, 1987 to redeem these shares on August 20, 1987 at a price of $25 per share.

$3.5625 Class A Preferred Shares Series 2

These shares bear cumulative $3.5625 dividends and are redeemable by the Bank after February 15, 1987 at the redemption price of $26.50 for the period February 15, 1987 to February 14, 1988 reducing thereafter by 25 cents annually to $25 on February 15, 1993 and thereafter. The holder may elect on or before January 15, 1989 to redeem these shares on February 15, 1989 at a price of $25 per share.

$2.05 Class B Preferred Shares Series 1

These shares bear cumulative $2.05 dividends and are convertible at the option of the holder at any time prior to the close of business on February 15, 1991 or the 5th business day prior to the date fixed for redemption of such shares, whichever is earlier, into Common Shares of the Bank at a conversion price of $32.75 per Common Share.

These shares are not redeemable before February 15, 1983. Thereafter, the shares are redeemable at the option of the Bank providing that the Bank's Common Shares have traded on a formula basis at not less than 125% of the conversion price. Subject to the foregoing, the redemption price for the period February 15, 1983 to February 14, 1986 would be $26.25 reducing thereafter by 25 cents annually to $25 on February 15, 1990 and thereafter.

Dividend Reinvestment and Share Purchase Plan and Stock Dividend Program

Shareholders, resident in Canada, have the right to reinvest Class B Preferred Shares Series 1 and Common Share dividends in new Common Shares at a price of 95% of the average market price. Each such shareholder also has the right to purchase new Common Shares at 100% of the average market price, subject to a limit of $5,000 per quarter. All shareholders having at least 100 shares of Class B Preferred Shares Series 1 or Common Shares have the right to receive dividends in the form of new Common Shares at a price of 95% of the average market price.

Pursuant to the Plan and Program, new Common Shares were issued as follows:

($ in thousands)

	1982		1981			
		Total Proceeds Added to:			Added to:	
	Shares	**Capital Stock**	Shares	Total Proceeds	Capital Stock	Contributed Surplus
Share purchase	**25,857**	**$ 598**	7,654	$ 227	$ 15	$ 212
Dividend reinvestment	**500,906**	**10,891**	62,212	1,754	125	1,629
Stock dividend	**215,238**	**4,737**	25,531	720	51	669
	742,001	**$16,226**	95,397	$2,701	$191	$2,510

7. CAPITAL STOCK *(continued)*

Shares reserved for issue:

Pursuant to various provisions 12,032,831 Common Shares have been reserved for issue as follows:

(i) 6,870,229 on conversion of Class B Preferred Shares Series 1.

(ii) 3,000,000 on the exercise of Common Shares Purchase Warrants, issued to holders of record on September 7, 1981 of the Class A Preferred Shares Series 1, at an exercise price of $33.25 per share, on or before August 20, 1986.

(iii) 2,162,602 pursuant to the Dividend Reinvestment and Share Purchase Plan and Stock Dividend Program.

In addition, 5,601,300 Class A Preferred Shares Series 2 have been reserved for issue on the exercise of Series 2 Share Purchase Warrants issued to holders of record on March 1, 1982 of the Class A Preferred Shares Series 2, at an exercise price of $25.00 per share, on or before February 15, 1983.

8. PENSION COSTS ($ in thousands)

In accordance with statutory requirements, periodic actuarial valuations are made of the Bank's pension plans. The last actuarial valuations under the Pension Benefits Standards Act were filed in 1982 and these valuations indicated that the plans were fully funded as at October 31, 1981.

Effective January 1, 1982, the pension plans were amended to provide supplementary pension payments which had been previously paid by the Bank to employees who retired prior to 1980. The additional liability arising from these amendments results in a net unfunded liability of the pension plans at October 31, 1981 of $24,560 which is being funded and expensed over 10 years.

9. PROVISION FOR INCOME TAXES ($ in thousands)

The provision for income taxes is included in the financial statements as follows:

	1982	1981
Consolidated statement of income	**$ 72,400**	$115,537
Consolidated retained earnings	**(81,535)**	(13,436)
	$ (9,135)	$102,101

The provision for income taxes shown in the consolidated statement of income is at an effective rate of tax which is lower than the combined federal and provincial rate on corporate taxable income. This is due primarily to the inclusion in the Bank's net income of tax-exempt interest on income debentures, small business development bonds and small business bonds, and dividends on term preferred shares of Canadian corporations. Because this income is not taxable to the Bank and the related payment of interest or dividend is not tax deductible by the borrower, the rate of interest or dividend is significantly lower than would apply to a loan of the same amount.

Accordingly, the Bank's after-tax income is not materially different from that which would have resulted from a similar volume of taxable loans.

10. NET INCOME PER COMMON SHARE ($ in thousands)

Basic net income per common share is calculated by dividing net income for the year less dividends declared on preferred shares (see note 12) by the daily average equivalent of fully paid shares outstanding.

Fully diluted net income per common share is based on the daily average number of common shares which would have been outstanding if all the Class B preferred shares had been converted to common shares and all outstanding warrants exercised at their respective dates of issue. It is presumed that the additional capital from the exercise of these warrants would leverage assets in the same ratio as capital bore to assets during the period. These additional assets are assumed to generate after tax income of $12,310 (1981: $2,633) at the same net rate of return of 0.41% (1981: 0.54%) as earned on existing assets of the Bank.

11. PRIOR PERIOD ADJUSTMENT

Prior to April 30, 1982 the Bank followed the policy of deferring unrealized foreign currency translation gains relating to the Bank's long-term investments in its foreign branches and foreign subsidiaries and included these amounts in other liabilities. In accordance with the translation rules issued by the Minister of Finance these unrealized gains, as computed at April 30, 1982, were added to retained earnings.

Effective May 1, 1982 unrealized gains and losses relating to such items are reported as other income in the consolidated statement of income.

12. DIVIDENDS ($ in thousands)

Dividends declared during the year are as follows:

	1982	1981
Class A Preferred Shares—Series 1	**$ 7,500**	$ 1,485
—Series 2	**15,663**	—
Class B Preferred Shares—Series 1	**18,450**	13,275
	41,613	14,760
Common Shares	**82,254**	74,471
	$123,867	$89,231

13. LONG-TERM COMMITMENTS FOR LEASES ($ in thousands)

The Bank has obligations under long-term non-cancellable operating leases for buildings and equipment. Future minimum lease payments for such commitments for each of the five succeeding years and thereafter are as follows:

	Buildings	Equipment	Total
1983	**$ 31,993**	**$ 17,316**	**$ 49,309**
1984	**30,379**	**13,873**	**44,252**
1985	**27,204**	**9,735**	**36,939**
1986	**24,685**	**6,536**	**31,221**
1987	**21,997**	**4,907**	**26,904**
1988 and thereafter	**187,232**	**—**	**187,232**

Total rental expense in respect of buildings and equipment charged to income for the year was $104,349 (1981: $108,824).

Notes to the Consolidated Financial Statements (continued)

14. GUARANTEES AND LETTERS OF CREDIT ($ in thousands)

The Bank guarantees the payment of liabilities and issues letters of credit on behalf of customers. Such amounts are not reported in the consolidated statement of assets and liabilities and are as follows:

	1982	1981
Guarantees	**$1,952,190**	$1,323,058
Letters of credit	**1,547,013**	1,187,965
	$3,499,203	$2,511,023

In the event of a call on any of the above commitments, the Bank has recourse against the customers.

Included in the above are guarantees and letters of credit issued by the Bank on behalf of corporations of which the Bank owns 10% to 50% of the voting shares amounting to $287,635 (1981: $279,304).

15. IMPACT OF 1980 BANK ACT RESTATEMENT ($ in thousands)

The 1981 financial statements, originally reported under the provisions of the 1967 Bank Act, have been restated to conform with the provisions of the 1980 Bank Act.

The restated financial statements include the accounts of all subsidiaries on a consolidated basis whereas previously only the accounts of wholly-owned banking subsidiaries were consolidated. Investments in associated corporations (20% to 50% owned companies) are now accounted for by the equity method instead of the cost method.

Letters of credit and guarantees are no longer included in the consolidated statement of assets and liabilities, but are now disclosed in the notes to the financial statements.

Securities, other than those issued or guaranteed by Canada and the provinces, which were previously carried at the lower of cost or market are now carried at cost. Specific provisions to reduce these securities to market, previously charged to accumulated appropriations for losses account, are no longer required.

The accumulated appropriations for losses account has been renamed appropriations for contingencies account. Profits and losses on the sale of securities, mortgages, premises and other non-recurring items, previously accounted for through the accumulated appropriations for losses account, are now accounted for through the consolidated statement of income. In the case of fixed maturity debt securities, profits and losses are now amortized over a five year period; all realized profits and losses on other securities are now taken directly to the consolidated statement of income. The tax paid portion of the accumulated appropriations for losses account is now included in retained earnings as part of shareholders' equity.

Rest account has been divided into its two component parts: contributed surplus (premiums paid in by shareholders in excess of the par value of the shares issued) and retained earnings.

The impact of these changes, on the 1981 financial statements, is as follows:

Total Assets as at October 31, 1981		
Originally reported—1967 Bank Act		$66,844,621
Changes:		
Elimination of letters of credit and guarantees—relating to subsidiaries	(1,564,901)	
—relating to other customers	(2,457,126)	
Assets of consolidated subsidiaries	4,883,925	
Elimination of securities of and loans to subsidiaries	(2,005,672)	
Equity accounting for associated corporations	10,371	
Reversal of specific provisions on securities	69,366	
Unamortized losses (before taxes) on fixed maturity debt securities	20,911	
Elimination of other intercompany balances	(103,785)	(1,146,911)
Restated—1980 Bank Act		$65,697,710
Capital and Reserves as at October 31, 1981		
Originally reported—1967 Bank Act		
Accumulated appropriations for losses		$ 402,653
Capital		378,581
Rest account		1,228,069
Undivided profits		2,925
		2,012,228
Changes:		
Share of post acquisition earnings of subsidiaries and associated corporations	42,426	
Unamortized losses (after taxes) on fixed maturity debt securities	10,455	
Reversal of specific provisions on securities	69,366	122,247
Restated—1980 Bank Act		$ 2,134,475
Represented by:		
Appropriations for contingencies		$ 156,551
Shareholders' equity		
Capital stock		378,581
Contributed surplus		171,653
Retained earnings		1,427,690
		$ 2,134,475
Net Income for the year ended October 31, 1981		
Originally reported—1967 Bank Act		$ 310,185
Changes:		
Consolidation of subsidiaries	9,536	
Equity accounting for associated corporations	4,349	
Items previously accounted for through accumulated appropriations for losses account	(4,006)	9,879
Restated—1980 Bank Act		$ 320,064

Condensed Financial Statements of Certain Subsidiaries

which are included in the consolidated financial statements of the Bank
(annexed in accordance with Section 215 (3)(e) of the 1980 Bank Act)

CIBC MORTGAGE CORPORATION

BALANCE SHEET as at October 31
(in thousands of dollars)

ASSETS	1982	1981
Cash	**$ 15,017**	$ 25,015
Securities	**144,204**	63,886
Mortgage loans	**3,967,071**	2,224,528
Other assets	**61,967**	27,595
	$4,188,259	$2,341,024

LIABILITIES AND SHAREHOLDERS' EQUITY

	1982	1981
Payable to Canadian Imperial Bank of Commerce	**$ 336,455**	$ 211,966
Promissory notes	**688,828**	—
Investment certificates and debentures	**2,804,803**	1,887,392
Other liabilities	**176,423**	120,800
Shareholders' equity:		
Capital stock		
Preferred shares	**30,000**	30,000
Common shares	**145,000**	85,000
Contributed surplus	**75**	75
Retained earnings	**6,675**	5,791
	$4,188,259	$2,341,024

STATEMENT OF INCOME AND RETAINED EARNINGS
for the year ended October 31, 1982
with comparative figures for the ten months ended October 31, 1981
(in thousands of dollars)

	1982	1981
Interest income	**$ 459,489**	$ 202,022
Other income	**2,002**	2,172
	461,491	204,194
Less:		
Interest expense	**421,496**	184,512
Administrative and other expenses	**36,240**	10,827
	457,736	195,339
Net income before provision for income taxes and extraordinary item	**3,755**	8,855
Provision for (reduction in) deferred income taxes	**(1,497)**	3,971
Net income before extraordinary item	**5,252**	4,884
Extraordinary item—disposal of properties (net of taxes)	**3,302**	—
Net income for the period	**8,554**	4,884
Retained earnings at beginning of period	**5,791**	4,227
	14,345	9,111
Dividends—preferred shares	**3,270**	120
—common shares	**4,400**	3,200
Retained earnings at end of period	**$ 6,675**	$ 5,791

NOTES

1. The corporation is subject to the provisions of the Loan Companies Act (Canada). The Bank acts as the corporation's sole agent in acquiring first mortgage loans and in promoting and selling of the corporation's promissory notes and one to five year investment certificates which are guaranteed by the Bank.
2. The Bank owns all of the common shares of CIBC Mortgage Corporation. The non-voting preferred shares are owned by a third party.
3. The corporation changed its name to CIBC Mortgage Corporation from Kinross Mortgage Corporation during the year.

COMMERCE LEASING LIMITED

BALANCE SHEET as at October 31
(in thousands of dollars)

ASSETS	1982	1981
Net investment in lease receivables	**$226,498**	$234,325
Fixed assets less accumulated depreciation	**181**	96
Other assets	**116**	180
	$226,795	$234,601

LIABILITIES AND SHAREHOLDER'S EQUITY

	1982	1981
Payable to Canadian Imperial Bank of Commerce	**$136,276**	$153,371
Notes payable	**20,847**	3,000
Other liabilities	**681**	1,500
Shareholder's equity:		
Capital stock	**77,000**	77,000
Deficit	**(8,009)**	(270)
	$226,795	$234,601

STATEMENT OF LOSS AND DEFICIT
for the year ended October 31
(in thousands of dollars)

	1982	1981
Income	**$ 31,094**	$ 30,185
Less:		
Interest expense	**24,389**	24,433
Selling and administrative expenses	**4,007**	3,399
Provision for bad debts	**10,926**	3,519
	39,322	31,351
Loss before provision for income taxes	**8,228**	1,166
Reduction in deferred income taxes	**489**	560
Net loss for the year	**7,739**	606
Deficit (retained earnings) at beginning of year	**270**	(336)
Deficit at end of year	**$ 8,009**	$ 270

NOTES

1. The company is engaged in direct finance leasing.
2. The Bank owns the entire capital stock of Commerce Leasing Limited which consists of preferred shares of $77,000,000 and common shares of $300.

Condensed Financial Statements of Certain Subsidiaries (continued)

COMMERCE–UD INC.

BALANCE SHEET as at October 31, 1982
with comparative figures as at March 31, 1982
(in thousands of dollars)

	1982	
ASSETS	**October 31**	March 31 Restated (Note 2)
Cash	**$ 735**	$ 97
Finance receivables	**94,173**	147,880
Investments in and advances to subsidiaries	**–**	360,266
Fixed assets less accumulated depreciation	**–**	684
Other assets	**2,125**	3,354
	$ 97,033	$512,281
LIABILITIES AND SHAREHOLDER'S EQUITY		
Payable to Canadian Imperial Bank of Commerce	**$ 20,057**	$407,379
Notes and debentures payable (secured)	**63,861**	87,308
Other liabilities	**1,541**	1,663
Shareholder's equity:		
Capital stock	**13,000**	13,000
Retained earnings (deficit)	**(1,426)**	2,931
	$ 97,033	$512,281

STATEMENT OF LOSS AND RETAINED EARNINGS (DEFICIT)
for the seven months ended October 31, 1982
with comparative figures for the year ended March 31, 1982
(in thousands of dollars)

	Seven Months ended 31/10/82	Year ended 31/3/82 Restated (Note 2)
Interest income	**$ 10,845**	$ 28,753
Less:		
Interest expense	**8,285**	22,680
General and administrative expenses	**1,213**	2,915
Provision for credit losses	**5,704**	4,784
	15,202	30,379
Loss before income tax recovery and losses of subsidiaries	**(4,357)**	(1,626)
Recovery of income taxes	**–**	(1,031)
	(4,357)	(595)
Losses of subsidiaries	**–**	(172)
Net loss for the period	**(4,357)**	(767)
Retained earnings at beginning of period	**2,931**	4,348
	(1,426)	3,581
Dividends	**–**	650
Retained earnings (deficit) at end of period	**$ (1,426)**	$ 2,931

NOTES
1. The company is engaged in providing commercial finance by way of conditional sales contracts and lease financing for industry.
2. In April 1982, the affairs of the company were restructured to enable the company to continue operations separately as a financial leasing subsidiary of the Bank as provided for under the 1980 Bank Act. Pursuant to this, the share investments in subsidiary and other companies were sold by the company to the Bank.
   For comparative purposes, the figures for March 31, 1982 have been restated to account for the subsidiaries by the equity method.
3. The Bank owns the entire capital stock of Commerce–UD Inc.
4. The company changed its name to Commerce–UD Inc. from United Dominions Corporation (Canada) Limited on September 30, 1982.

COMMERCE FACTORS LIMITED

BALANCE SHEET as at October 31
(in thousands of dollars)

ASSETS	**1982**	1981
Cash	**$ 936**	$ –
Purchased accounts and loans receivable	**347**	6,757
Fixed assets less accumulated depreciation	**–**	124
Other assets	**13**	501
	$ 1,296	$ 7,382
LIABILITIES AND SHAREHOLDER'S EQUITY		
Payable to Canadian Imperial Bank of Commerce	**$ 75**	$ 4,575
Balance payable on purchased accounts receivable	**558**	1,529
Other liabilities	**616**	1,182
Shareholder's equity:		
Capital stock	**4,950**	1,750
Deficit	**(4,903)**	(1,654)
	$ 1,296	$ 7,382

STATEMENT OF LOSS AND DEFICIT
for the year ended October 31
(in thousands of dollars)

	1982	1981
Income	**$ 1,730**	$ 3,293
Less:		
Interest expense	**507**	699
Provision for bad debts	**2,304**	616
Other expenses	**2,168**	2,337
	4,979	3,652
Loss for the year	**3,249**	359
Deficit at beginning of year	**1,654**	1,295
Deficit at end of year	**$ 4,903**	$ 1,654

NOTES
1. The company is in the process of winding up its factoring and commercial financing operations and the year's expenses include a provision for the estimated wind up costs.
2. The Bank owns the entire capital stock of Commerce Factors Limited which consists of preferred shares of $4,950,000 (1981: $1,750,000) and common shares of $6 (1981: $6).
3. The company has assumed the credit risk relative to receivables totalling $0.9 million at October 31, 1982 (1981: $37.9 million).

Subsidiaries and Other Corporations

in which the Bank owns more than ten per cent of the voting shares as at October 31, 1982
(annexed in accordance with Section 216(4) of the 1980 Bank Act)

Name	Address of Head or Principal Office	Book value* of voting shares owned by the Bank ($ in thousands)	Percent of issued and outstanding voting shares owned by the Bank
DOMESTIC:			
CIBC Mortgage Corporation	Commerce Court West, Toronto, Ontario	$147,666	100.0
Commerce Factors Limited	Commerce Court West, Toronto, Ontario	**	100.0
Commerce Leasing Limited	Commerce Court West, Toronto, Ontario	**	100.0
Commerce–UD Finance Inc.	Commerce Court West, Toronto, Ontario	$ 50	100.0
Commerce–UD Inc.	Commerce Court West, Toronto, Ontario	$ 9,344	100.0
The Dominion Realty Company Limited	Commerce Court West, Toronto, Ontario	$ 44,000	100.0
Imbank Nominees Limited	Commerce Court West, Toronto, Ontario	**	100.0
Imbank Realty Company Limited	Commerce Court West, Toronto, Ontario	$ 250	100.0
Canlea Ltd.	Suite 1100, 33 Yonge Street, Toronto, Ontario	$ 3,199	50.0
Chargex Ltd./Chargex Ltée	160 Elgin Street, Ottawa, Ontario	**	25.0
Edifice Dorchester-Commerce Inc.	1155 Ouest, Boulevard Dorchester, Suite 1501, Montreal, Quebec	**	50.0
Export Finance Corporation of Canada Limited	First Canadian Place, 19th Floor, Toronto, Ontario	$ 8	25.7
Guardian Capital Group Limited	48 Yonge Street, Toronto, Ontario	$ 1,608	18.3
Les Immeubles St. Jacques McGill Ltée	612 Rue Saint Jacques, Montreal, Quebec	$ 12	50.0
Transatlantic Trust Corporation	Suite 900, Brunswick House, 44 Prince William Street, Saint John, New Brunswick	$ 27	25.0
82195 Canada Limited	Suite 3000, 300-5th Ave. S.W., Calgary, Alberta	$ 2,510	25.0

Subsidiaries and Other Corporations (continued)

Name	Address of Head or Principal Office	Book value* of voting shares owned by the Bank ($ in thousands)	Percent of issued and outstanding voting shares owned by the Bank
INTERNATIONAL:			
Bank of Commerce Jamaica Limited	P.O. Box 762, Kingston, Jamaica	$ 2,964	100.0
Bank of Commerce Trust Company Barbados Limited	P.O. Box 1008, Bridgetown, Barbados	$ 222	100.0
Canadian Imperial Bank of Commerce (Asia) Limited	Suite 9.01, The Octagon, 105, Cecil Street, Singapore 0106	$ 1,658	100.0
Canadian Imperial Bank of Commerce Trust Company (Bahamas) Limited	P.O. Box N 3933, Nassau, Bahamas	$ 983	100.0
Canadian Imperial Bank of Commerce Trust Company (Cayman) Limited	P.O. Box 694, Grand Cayman, Cayman Islands	$ 3,316	100.0
Canadian Imperial Holdings Inc.	100 West Tenth Street, Wilmington, Delaware, 19801 U.S.A.	$123,639	100.0
Holding company for:			
Canadian Imperial Holding Company			
California Canadian Bank			
Canadian Imperial Bank of Commerce Trust Company			
Canadian Imperial Service Company			
Canadian Imperial Leasing Inc.			
CIBC Finance B.V.	Vijzelstraat 79B, Amsterdam, 1017HG, The Netherlands	$ 16,306	100.0
Holding company for:			
Canadian Imperial Bank of Commerce (International) S.A.			
CIBC Finanz AG			
CIBC Limited			
Commerce International Trust			
Martin Corporation Group Limited	G.P.O. Box 3709, Sydney, N.S.W., 2001 Australia	$ 4,574	80.0
Bank of Commerce Trinidad and Tobago Limited	P.O. Box 69, Port of Spain, Trinidad	$ 13,604	48.4
Canadian Eastern Finance Limited	19th Floor, China Building, 29 Queen's Road, Central, Hong Kong	$ 16,336	50.0
International Energy Bank Limited	9 King Street, London, EC2V 8EA England	$ 10,102	20.0

*Book value of voting shares of subsidiaries and other corporations is shown at cost except for associated corporations (20% to 50% owned companies) which is shown at equity.
**The book value of voting shares owned by the Bank in each of these corporations is less than one thousand dollars.

Six-Year Statistical Review
(in thousands of dollars)

CONSOLIDATED STATEMENT OF ASSETS AND LIABILITIES as at October 31:	1982
ASSETS	
CASH RESOURCES	
Cash and deposits with Bank of Canada	$ 1,500,565
Deposits with other banks	3,107,127
Cheques and other items in transit, net	723,348
	5,331,040
SECURITIES	
Issued or guaranteed by Canada	2,032,493
Issued or guaranteed by provinces and municipal or school corporations	26,692
Other securities	2,706,785
	4,765,970
LOANS	
Day, call and short loans to investment dealers and brokers, secured	575,326
Loans to banks	1,616,491
Mortgage loans	7,063,770
Other loans	44,324,697
	53,580,284
OTHER	
Customers' liability under acceptances	2,973,025
Land, buildings and equipment	635,653
Other assets	1,150,279
	4,758,957
	$68,436,251
LIABILITIES	
DEPOSITS	
Payable on demand	$ 5,341,308
Payable after notice	14,980,466
Payable on a fixed date	39,948,353
	60,270,127
OTHER	
Acceptances	2,973,025
Liabilities of subsidiaries, other than deposits	63,861
Other liabilities	1,816,406
Minority interests in subsidiaries	31,935
	4,885,227
SUBORDINATED DEBT	
Bank debentures	901,320
CAPITAL AND RESERVES	
Appropriations for contingencies	165,125
Shareholders' equity	
Capital stock	726,428
Contributed surplus	—
Retained earnings	1,488,024
	2,379,577
	$68,436,251

Note: For the purposes of this Review, the 1981 and prior years' financial information has been restated to conform to the presentation used in 1982 and in accordance with the provisions of the 1980 Bank Act.

1981	1980	1979	1978	1977
$ 1,735,193	$ 1,770,657	$ 1,698,180	$ 1,219,076	$ 1,261,549
4,878,220	6,967,619	5,753,855	5,187,084	4,609,705
996,212	647,772	594,804	960,081	662,521
7,609,625	9,386,048	8,046,839	7,366,241	6,533,775
2,575,833	2,277,613	2,084,109	2,060,763	1,959,325
64,694	79,064	131,763	117,634	114,445
2,349,979	2,403,310	2,354,541	2,207,851	1,319,682
4,990,506	4,759,987	4,570,413	4,386,248	3,393,452
251,393	850,334	508,986	312,444	357,427
1,697,895	1,540,848	1,473,261	953,524	426,807
6,672,443	5,272,930	4,778,442	3,768,661	2,930,916
40,521,590	28,880,996	23,718,197	19,433,907	16,668,216
49,143,321	36,545,108	30,478,886	24,468,536	20,383,366
2,475,891	2,312,873	866,880	384,399	323,561
622,457	545,089	489,568	459,601	423,101
855,910	618,752	498,703	329,779	192,611
3,954,258	3,476,714	1,855,151	1,173,779	939,273
$65,697,710	$54,167,857	$44,951,289	$37,394,804	$31,249,866
$ 6,346,357	$ 6,107,903	$ 5,797,211	$ 5,926,132	$ 5,013,239
13,640,291	11,462,119	9,412,967	9,765,548	7,940,496
38,775,708	30,914,865	26,096,141	19,092,591	16,272,578
58,762,356	48,484,887	41,306,319	34,784,271	29,226,313
2,475,891	2,312,873	866,880	384,399	323,561
99,826	128,817	60,954	77,852	84,776
1,606,988	1,222,312	837,392	541,653	331,665
36,179	5,619	27	113	15
4,218,884	3,669,621	1,765,253	1,004,017	740,017
581,995	462,277	400,848	300,000	225,000
156,551	90,567	145,688	116,121	120,300
378,581	78,390	78,390	77,926	69,680
171,653	169,143	169,143	164,043	73,333
1,427,690	1,212,972	1,085,648	948,426	795,223
2,134,475	1,551,072	1,478,869	1,306,516	1,058,536
$65,697,710	$54,167,857	$44,951,289	$37,394,804	$31,249,866

Six-Year Statistical Review

(in thousands of dollars)

CONSOLIDATED STATEMENT OF INCOME for the year ended October 31:	1982
Interest Income	
Income from loans, excluding leases	**$8,169,318**
Income from lease financing	**34,980**
Income from securities	**559,937**
Income from deposits with banks	**593,600**
Total interest income, including dividends	**9,357,835**
Interest Expense	
Interest on deposits	**7,687,365**
Interest on bank debentures	**92,659**
Interest on liabilities other than deposits	**16,003**
Total interest expense	**7,796,027**
Net interest income	**1,561,808**
Provision for loan losses	**321,679**
Net interest income after loan loss provision	**1,240,129**
Other income	**426,202**
Net interest and other income	**1,666,331**
Non-Interest Expenses	
Salaries	**759,361**
Pension contributions and other staff benefits	**65,423**
Premises and equipment expenses, including depreciation	**213,357**
Other expenses	**270,310**
Total non-interest expenses	**1,308,451**
Net income before provision for income taxes	**357,880**
Provision for income taxes	**72,400**
Net income before minority interests in subsidiaries	**285,480**
Minority interests in subsidiaries	**4,640**
Net income for the year	**$ 280,840**
Average number of common shares outstanding	
Basic	**39,553,611**
Fully diluted	**49,423,840**
Net income per common share (in dollars)	
Basic	**$6.05**
Fully diluted	**$5.46**

Note: For the purposes of this Review, the 1981 and prior years' financial information has been restated to conform to the presentation used in 1982 and in accordance with the provisions of the 1980 Bank Act.

1981	1980	1979	1978	1977
$7,370,137	$4,561,206	$3,143,775	$2,207,169	$1,812,176
30,312	20,048	6,959	1,608	1,072
573,360	447,200	426,912	295,496	216,499
884,777	857,157	653,121	370,257	261,583
8,858,586	5,885,611	4,230,767	2,874,530	2,291,330
7,337,683	4,761,422	3,222,353	1,900,272	1,469,162
53,085	41,341	29,017	24,470	19,547
18,003	14,856	6,767	7,879	13,280
7,408,771	4,817,619	3,258,137	1,932,621	1,501,989
1,449,815	1,067,992	972,630	941,909	789,341
215,188	167,132	108,793	86,573	66,511
1,234,627	900,860	863,837	855,336	722,830
378,086	320,553	253,110	211,550	177,884
1,612,713	1,221,413	1,116,947	1,066,886	900,714
670,372	585,743	509,085	431,432	392,090
60,517	53,193	44,001	39,170	31,435
192,681	159,751	138,084	112,054	96,348
251,565	200,323	173,129	149,960	129,860
1,175,135	999,010	864,299	732,616	649,733
437,578	222,403	252,648	334,270	250,981
115,537	23,660	43,045	118,354	107,777
322,041	198,743	209,603	215,916	143,204
1,977	357	104	12	—
$ 320,064	$ 198,386	$ 209,707	$ 215,928	$ 143,204
39,196,045	39,195,000	39,153,843	36,322,273	34,840,000
44,598,429	39,195,000	39,153,843	36,322,273	34,840,000
$7.79	$5.06	$5.36	$5.94	$4.11
$7.20	$5.06	$5.36	$5.94	$4.11

Six-Year Statistical Review

(in thousands of dollars)

CONSOLIDATED STATEMENT OF APPROPRIATIONS FOR CONTINGENCIES for the year ended October 31:	1982
Balance at beginning of year	$ 156,551
Deduct net loss experience on loans	(488,105)
Add provision for loan losses included in consolidated statement of income	321,679
Transfer from retained earnings	175,000
Balance at end of year	**$ 165,125**

CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY for the year ended October 31:	1982
CAPITAL STOCK	
Balances at beginning of year	$ 378,581
Add: Increases during the year	
Preferred shares	159,968
Common shares	16,226
Transfer from contributed surplus	171,653
Balances at end of year	**$ 726,428**
CONTRIBUTED SURPLUS	
Balance at beginning of year	$ 171,653
Additions from capital stock issues	—
Transfer to capital stock	(171,653)
Balance at end of year	**$ —**
RETAINED EARNINGS	
Balance at beginning of year	$ 1,427,690
Prior period adjustment	1,828
Expenses of issue of shares	(2,467)
Net income for the year	280,840
Dividends	(123,867)
Transfer to appropriations for contingencies	(175,000)
Income taxes related to the above transfer	79,000
Balance at end of year	**$ 1,488,024**

Note: For the purposes of this Review, the 1981 and prior years' financial information has been restated to conform to the presentation used 1982 and in accordance with the provisions of the 1980 Bank Act.

1981	1980	1979	1978	1977
$ 90,567	$ 145,688	$ 116,121	$ 120,300	$ 110,823
(167,904)	(222,284)	(99,399)	(109,495)	(88,239)
215,188	167,132	108,793	86,573	66,511
18,700	31	20,173	18,743	31,205
$ 156,551	$ 90,567	$ 145,688	$ 116,121	$ 120,300

1981	1980	1979	1978	1977
$ 78,390	$ 78,390	$ 77,926	$ 69,680	$ 69,680
300,000	—	—	—	—
191	—	464	8,246	—
—	—	—	—	—
$ 378,581	$ 78,390	$ 78,390	$ 77,926	$ 69,680
$ 169,143	$ 169,143	$ 164,043	$ 73,333	$ 73,333
2,510	—	5,100	90,710	—
—	—	—	—	—
$ 171,653	$ 169,143	$ 169,143	$ 164,043	$ 73,333
$ 1,212,972	$ 1,085,648	$ 948,426	$ 795,223	$ 716,375
—	—	—	—	—
(5,251)	—	—	—	—
320,064	198,386	209,707	215,928	143,204
(89,231)	(70,551)	(62,666)	(53,361)	(48,776)
(18,700)	(31)	(20,173)	(18,743)	(31,205)
7,836	(480)	10,354	9,379	15,625
$ 1,427,690	$ 1,212,972	$ 1,085,648	$ 948,426	$ 795,223

CANADIAN IMPERIAL
BANK OF COMMERCE

Directors

Chairman and Chief Executive Officer
**RUSSELL E. HARRISON

Vice-Chairman and President
*R. DONALD FULLERTON

Vice-Chairman
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CANADIAN IMPERIAL
BANK OF COMMERCE

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CANADIAN IMPERIAL
BANK OF COMMERCE

Remarks by

Russell E. Harrison

Chairman and Chief Executive Officer
at the Annual General Meeting of Shareholders
January 20, 1983

Let me now turn to the future, to the weeks and months that lie before us and the challenges and opportunities they appear to present.

Again, I start with the general economic setting. That is where any banker must start an assessment of prospects and problems. Banks are not islands, isolated from the economic mainland. Nor are we castles, perched loftily above it all. We operate on the economic main street—at the very centre of the financial and business life of our community. What is happening on the street around us is not simply of passing interest, but of critical importance.

Frankly, it is no easy task to identify or forecast what is happening or about to happen in the Canadian economy. I am sure every Canadian yearns, as I do, for positive news. Our nation has had its fill of negatives. But if it is time for positive thinking, it surely is also time for realistic talking. In my view, it serves no more useful purpose to overstate our prospects than it does to exaggerate our problems.

Having said that, I believe I can point with both hope and realism to at least some modest improvement in the Canadian economy in 1983. Having suffered through five—probably six—consecutive quarters of declining real growth, it now appears that at worst we have reached bottom and probably are at the beginning of a slow, sluggish and erratic move upward. For the year, we are forecasting real GNP growth of between 1 and 2 per cent—a modest recovery indeed given that our economy lost almost 5 per cent during the previous 12 months.

Put simply and directly, our problem is that we lack a significant sector of activity able of its own impetus to ignite general recovery. Our governments are stretched too far financially already to provide much stimulus—a statement I trust is shared and understood by governments themselves. Consumer confidence, battered in past months by high inflation and high interest rates, now is suffering from high unemployment and rising insecurity among working Canadians. As for the corporate sector, even an increase this year in profit levels of 20 to 25 per cent will not undo the damage already done by falling earnings, rising debt and debt servicing costs and low capacity utilization rates. It is unrealistic to expect any serious turnaround in corporate investment before 1984.

Where then is the impetus for even modest recovery? First, in some rebuilding of business inventories which have been severely reduced in recent months. Secondly, in at least a marginal upswing in consumption. Our current forecast is for real growth in consumer spending this year of about 1 per cent with perhaps a 2.5 per cent increase in spending on durable goods. Housing starts, which carry with them a particularly high economic multiplier, should recover at least to the 150,000 level.

The third area to which Canadians can look for some positive stimulus is in our international trade. Given our relatively high dependence on exports, Canada traditionally has relied on trade to lead us out of recession. That probably will be the case this time, too, at least to a considerable degree. We foresee a merchandise trade surplus this year of as much as $21 billion and a current account surplus as high as $5 billion.

One crucial factor, of course, is the pace of economic recovery in the United States, our main economic partner. We have been waiting for signs of genuine U.S. recovery for at least six months now; despite continuing positive developments in regard to inflation and interest rates, so far we

seem to have had a series of false starts. Our current view is that the U.S. economy will, in fact, turn around in 1983, but with only enough momentum to produce an annual real growth rate in the 1.5 per cent range.

It is difficult to be even that encouraging about the rest of the world. All indicators point to continued stagnation in Europe with record levels of unemployment offsetting positive progress on the inflation front. The developing nations continue to be beset by weak markets and very low prices for their basic resources. Many of them clearly face a continuing struggle to earn levels of foreign exchange adequate to service their outstanding obligations.

One significant unknown is the course of world oil prices and markets. Ironically, it is less obvious than might be assumed that the overall interests of the industrialized nations, including Canada, would best be served by a further drop in international energy prices. Such a development would have a punishing impact on several countries with particularly large international debts. It also might throw further into doubt the short-term economics of some of the energy development projects in Canada we desperately need to stimulate new growth and employment.

The High Cost of Inflation

If there is a positive note amid all of this, it must lie with the considerable progress being made, nationally and internationally, in reducing rates of inflation. I have made the point on many occasions that, while rising unemployment and falling incomes and profits are the result of this recession, its cause clearly has been inflation. That is a lesson we have learned at an enormous price to our country and our people. It would be more than tragic if our leaders chose to forget or ignore it in the months ahead of us.

We see Canadian inflation, as measured by the cost-of-living index, continuing to ratchet down to the 8 per cent range this year. That is still too high by any historical standard, but it does represent substantial improvement from the 12½ per cent level of 18 months ago. Even more encouraging, I think one can say with some confidence that the essential need for moderation and restraint in our demands on the economy is now accepted by most, if not all, of the Canadian public. My reading is that, even with the various restraint programs they have initiated, our governments by and large are behind—and certainly not ahead—of the Canadian public in their willingness to look hard and realistically at what this country can afford to spend on various public services.

Even with the progress we have made, there can be no let-up in this battle against inflation. Our costs still are rising at a considerably faster rate than those in the United States and that hardly augurs well for a country so dependent on being able to sell competitively into that large market. In our view, American inflation will hold this year to the 5-6 per cent range, so we will have no advantage handed back to us, as it were, from that quarter.

Lower inflation means lower and more stable interest rates. I am sure I have no need to argue the attractions of that objective to this audience. Again, we have made progress—from a midsummer high of 17¾ per cent in the prime rate to a current level of 12 per cent. Again, we need to maintain and solidify the trend if many of our customers—and indeed the economy in general—are to gain some breathing space from the suffocating effects of excessive debt servicing costs.

And lest it need saying again, let me repeat that we in the chartered banks of Canada are as eager as any group in this country to return to a regime of lower, more stable rates. Not only because we take little comfort from the squeeze high rates have inflicted on so many of our customers, but also because we ourselves can operate more effectively and more profitably in a more stable interest rate environment. One has only to look at the impact on our earnings of the volatile rates of the past year and more to understand that quite elementary fact of life.

I believe there is still room for downward movement in our interest rate structure—provided we continue to make progress in reducing inflation. With real rates—that is, the difference between nominal rates and inflation—now barely 3 per cent, interest rates and inflation have become clearly intertwined. We will make progress on one only as we make progress on the other. As well, of course, we need a continued downward trend in U.S. rates, something I believe we will continue to see into 1983. I, for one, do not believe, as some seem to, that our central bank can cavalierly ignore the existence of a North American financial market.

That then, in at least broad canvas, is the economic setting within which we appear to be working as we begin this new year. We should be aware of it and responsive to it. But we must not be frightened by it.

Its message surely is that we should move forward prudently and realistically. Its message is not that we should stop moving forward. That is not a time to stop doing business and, believe me, that is not the intention of Canadian Imperial Bank of Commerce. Nor is it a time to walk away from long and valued customers, in Canada or elsewhere, who may be struggling with temporary problems. And that is not our intention either.

If there is a lesson for us to learn from recent experience—and we are not above learning from experience—it is not that we should cease doing business. More to the point, it is that we should not do business merely for the sake of it, without

sufficient regard to its relevance, its quality, its security and its profitability. Collectively, the entire world banking community in recent years has chased after asset growth without, in too many cases, due regard to the more important fundamentals of good banking. The need is to restore those fundamentals to their rightful priority and that is precisely what we are doing.

Banking—good banking—is always a matter of balance. Balance between our obligation to you, our shareholders, to operate as efficiently and profitably as we can and our wider, corporate responsibility to serve the legitimate needs of our community. I have never believed that profitability and responsibility are mutually exclusive. Rather, I am convinced that we can now—as we have over many years—earn a fair return for you by doing a good job for the country. That, as I see it, is exactly our mandate.

That will be no small challenge in the economic setting of 1983. The wounds of this recession run deep and there will be no early let-up in the casualties it claims. We will continue to absorb substantial loan losses: it is unrealistic to believe otherwise. Our skills, our dedication, our ingenuity will continue to be tested in developing the kind of business we want and in assisting many of our customers through these difficult times.

We do not underrate the challenge. No one else should underrate the capacity of this institution to meet it.

By any measurement, 1982 was the most formidable test this Bank has faced in 40 years and more. We met that test, not without cost or difficulty, but in a way which surely must confirm, even to the worst doubter, the ultimate strength and stability of the Commerce.

Amid the worst recession Canada has witnessed since the Second World War and despite very large loan losses, we earned the second largest profit in our history and added substantially to our capital base. We dealt with problems among large and visible—sometimes too visible—customers while fully protecting the interest and integrity of this Bank. We made further substantial progress in redressing the mismatch of fixed-term assets and liabilities that had been so costly to us in preceding years. We reversed the disturbing trend of ever-escalating operating costs and began to move toward a leaner, more efficient bank without sacrificing our essential capacity to serve the people of Canada.

I mention those achievements with no sense of complacency, but to underline the point that we are not simply a good times institution. The men and women of the Commerce—our ultimate asset—do respond to challenges and difficult times. They did so in 1982: I have every confidence they will continue to do so in 1983.

We all know the challenge is far from over. We have only begun the task of making this Bank truly cost efficient. We intend to redouble that effort this year, not by crippling our capacity to grow and to provide service, but by cutting away at the administrative underbelly we, like most other large organizations, have allowed to develop amid us.

We need to hone our direction and improve our ability to develop proactive strategies and policies to meet the banking world of the 1980's. To that end, we have reorganized our most senior management structure—to create a Chief Executive Office with a specific mandate to set goals, strategies and policies, and to place responsibility for the day-to-day operations of the Bank in the hands of five Executive Vice-Presidents.

Domestic Market Priority

We intend to move forward to reaffirm our primacy in the domestic banking market. We are a world-scale bank—the seventh largest in North America—with substantial international assets. But the Commerce remains, first and foremost, a chartered bank of Canada committed to being a full and integral partner in the building of this nation.

We are proceeding with the rationalization of our branch system—not to reduce it, but to refine and redefine it to meet the changing needs of our customers. This clearly is the age of convenience banking and we must respond to it—in the locations and hours of service and the products we offer. For example, we are accelerating the installation of automated teller machines—Instant Tellers—and giving more emphasis to non-branch locations like shopping centres, office towers and residential areas so Commerce customers can get service where and when they want it.

We are continually reviewing our products and services, too, to ensure that they reflect the changing needs of our customers. We are moving, for example, toward an All-Purpose account to reduce the complexity—and the cost—of managing multiple accounts for a single customer. We have recognized the crucial importance of effective cash management to our corporate customers by developing a network of regional consultants to assist clients in this area and by bringing onstream the COMMCASH system, which we believe is the most effective choice available to Canadian business.

Internationally, the challenge is two-fold. On the one hand, we are cooperating with other banks and with international agencies such as the IMF to restructure and, where necessary, refinance the bank debt of several problem countries. Our basic approach has been to accept that we have an obligation, at least proportionate to our share of the current problem, to participate in a common,

workable solution. I do not underestimate the complexity or the delicacy of several of these situations. But I do believe there is a common will among the nations—and the banks—of the world to work through these difficulties and I am cautiously optimistic that we will be able to accomplish that none-too-easy goal.

Our other international challenge is to continue to build this business as we build domestically—on the basis of sound, profitable banking practice. We are continuing to expand our U.S. operations which reported record profits last year. We are adding more mining and energy capability to our Corporate Finance Group, headquartered in Chicago, and installing a modern currency trading facility in New York, linked electronically to Chicago and San Francisco. We also are expanding our treasury operation in the United States to strengthen our ability to gather deposits and enlarge our funding base.

Those are some of the steps we are taking within the Commerce itself so that we can operate more effectively in the current economic atmosphere. But even more important—to us and, most certainly, to our nation—is the need to improve Canada's economic performance.

A Need for Consensus

On several recent occasions, I have put forward proposals which I believe would contribute directly to economic recovery. I have called on governments, federal and provincial, to make a firm and specific commitment to reduce their deficits and demands on the nation's wealth as the economy recovers . . . I have proposed positive action to boost investor confidence in Canada both at home and abroad . . . and I have suggested a major cooperative assault on our growing productivity crisis by government, management and labour. I continue to believe that common sense action in each of those areas would be good for Canada.

I want today to appeal for leadership and initiative on an even broader issue. As I view the current Canadian scene, one of the most disturbing facts to my eye is not only that we lack any broad consensus on the direction of our nation, but, even worse, we lack even the means within which to discuss and build such a consensus.

Look at the world around us and I believe you will find—whether it is in Japan or Germany or Switzerland or wherever—that a common thread among those nations which have performed relatively well in recent years is their ability to bring together the key elements of their economy—government, business and labour—into common understanding on at least the basic priorities and broad direction their country should take. The process is different in each country, reflecting unique cultural, social or political factors which probably mean that none of these systems are, per se importable to Canada. But, surely, the principle or the concept is as applicable to this country as to any other.

To succeed in today's difficult world, no nation—not even one as rich in resources as Canada—can afford the luxury of perpetual internal conflict and division. Yet, that is exactly what we have had for a decade and more—Ottawa against the provinces, region against region, government against business, government against labour, business against labour. Even achievements in the name of national unity, such as the recent patriation of our constitution, have scarred our national fabric.

I am not suggesting that some tension among the major elements of our economy and society is not inevitable or even unhealthy. But is there not some level of common purpose, of broad direction, around which we all might rally in the name of national interest?

To take but one concrete example, we have learned—at least I hope we have learned—that inflation is not a trade-off to unemployment, but a suffocating force which claims jobs as surely as it erodes savings. A renewed bout of inflation is not the answer to the cruelly high levels of unemployment we now have. But what are the alternatives? We desperately need a thoughtful, open, national debate on such a question . . . a dialogue not to assess blame or to score points, but to share information and ideas honestly and frankly in the hope we all can agree on at least the essential lines of an answer.

My sense is that the people of this country are craving for positive direction and leadership. The vast majority have shown they realize that the easy days are over and that difficult choices have to be made. I believe they are prepared to support those choices, even at some direct cost, provided they can see and be assured that the answers given them represent a genuine attempt to find and express the common good.

I do not underrate the difficulties in bridging the chasm of conflict and mistrust that has been opened among the major groups in our society. But one has only to contemplate the alternatives, the price of further years of conflict and confrontation, to know that somehow the effort must be made.

Have we become so self-centered as a people that we are now incapable of the kind of common purpose that built this vast and glorious land? I, for one, am too deeply committed to Canada to entertain such a notion. I wish our leaders would put us to the test.

Thank you.

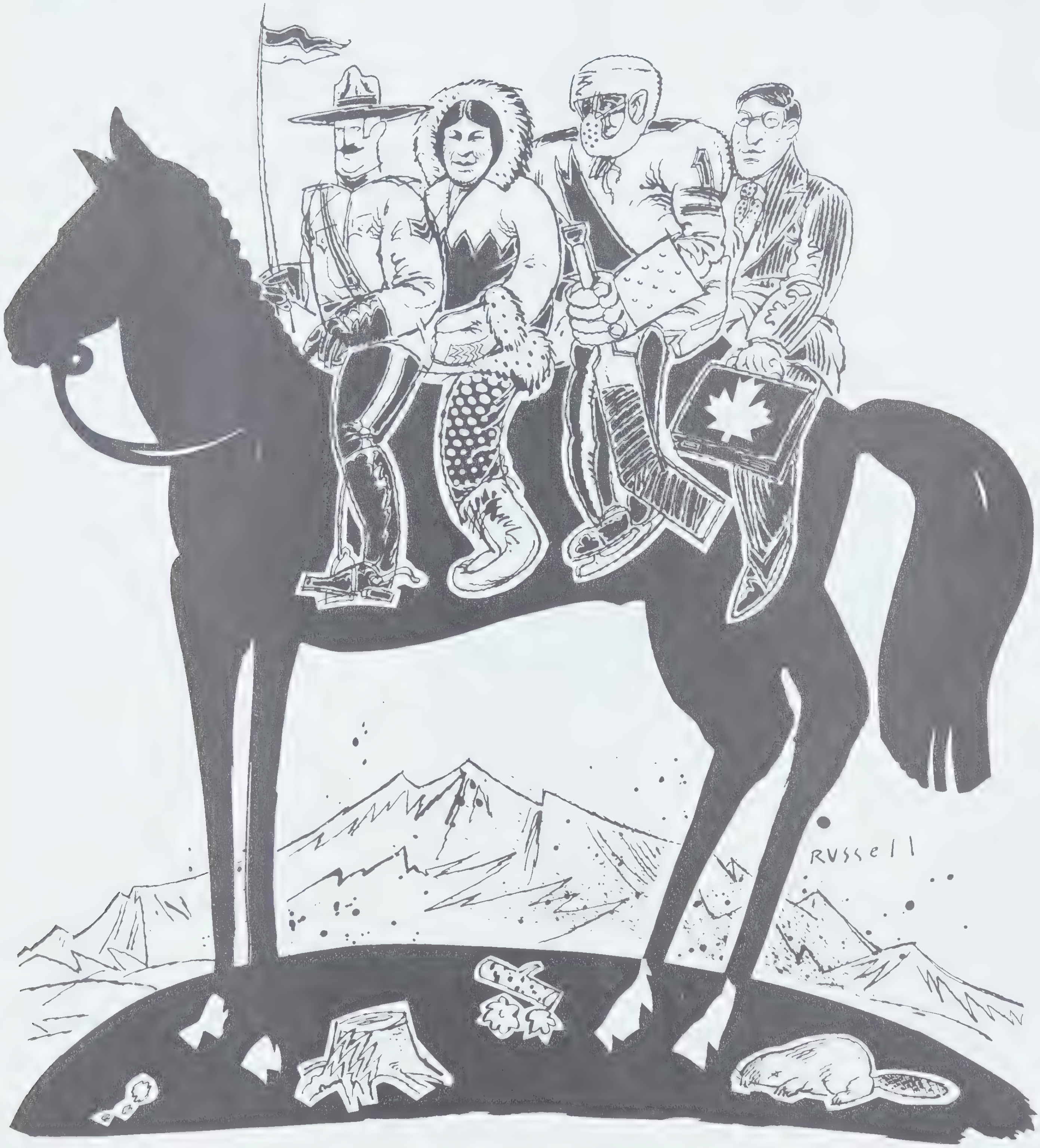
AR29

SPECTRUM

CANADIAN IMPERIAL
BANK OF COMMERCE
Volume 3, Number 2, 1983

As Others See Us – Canada's Image Abroad

by Charles S. A. Ritchie, C.C.



Charles S. A. Ritchie, C.C., was born in Halifax and educated at Trinity College School in Port Hope, Ontario. After graduation from the University of King's College, Halifax, he took B.A. and M.A. degrees at Oxford University and an M.A. degree at Harvard University. He also attended the Ecole Libre des Sciences Politiques in Paris.

Mr. Ritchie joined the Department of External Affairs as Third Secretary in 1934. He subsequently served in Washington, London and Paris. In 1950, he was appointed Assistant Under-Secretary of State for External Affairs and Deputy Under-Secretary in 1952. He has served as Ambassador to the Federal Republic of Germany, Ambassador and Permanent Representative to the United Nations, Ambassador to the United States, High Commissioner to the United Kingdom and Special Advisor to the Privy Council, Ottawa. He is the author of several books, including "The Siren Years" (1974), "An Appetite for Life" (1977) and the recently published "Diplomatic Passport".

Since his retirement, Mr. Ritchie and his wife have been dividing their time between Ottawa, London and Chester, Nova Scotia.

Serving Canada abroad, as I have done for nearly 40 years, is a curious but most enlightening experience. The Canadian identity emerges very clearly when seen from the outside and when Canada appears as an actor on the international stage.

Any foreign diplomat who has had the experience of negotiating with Canadians would recognize on sight our particular Canadian mix of goodwill and hard-headedness, of friendliness and touchiness. He would also, I think, respect the Canadian instinct for conciliation and a realistic acceptance of the limits of the possible, mingled though it is with a strong dose of self-righteousness. These qualities do not seem to be more Anglo-Canadian than French Canadian. Indeed, seen from abroad, all Canadians, whatever their differences of origin, seem much more like each other than like any other race or nation, including the races from which they spring.

Over the longer perspective there also emerges a continuity in Canadian attitudes in international affairs. Despite changes of governments and varying emphasis in our foreign policies, it would not be impossible to predict a Canadian national reaction to an international problem or crisis. The very vocabulary in which Canadian views are expressed has its own distinctive character. It has a moralistic, preaching tone which strives, sometimes inadequately, to express a real strain of idealism. Yet this idealism is inevitably diluted by the realism of a great exporting nation with the material interests of its people to safeguard. Indeed, any policy which drifted away too far from our national interests into an atmosphere of ideal international aspirations would have no roots at home. Sometimes, however, this dichotomy produces uncomfortable situations in which we laboriously strive to reconcile our ideals and our interests. For example, which is to come first – our economic stake in South Africa or our abhorrence of apartheid? With what difficulty we have striven, and are still striving, to reconcile our disapproval of the proliferation of nuclear weapons with the sale of CANDU reactors, or our refusal to accept a nuclear role in armaments with our dependence on American nuclear protection. We are certainly not the only country to be faced with such struggles between conscience and convenience, but they should make us pause before we indulge in rhetoric for which we are not always willing to pay the price.

The role of the Foreign Service

The official representatives of Canada – the Foreign Service, our Trade, Aid and Cultural officials, the Armed Forces – convey to foreigners an official image of our country. The Foreign Service in particular, as the instrument of Canadian foreign and trade policy, plays a continuing role and the impression it conveys of Canada is an important element in the judgment that foreigners make of us. Therefore, it might be useful to discuss briefly the role of the Foreign Service, the position of the people who represent it, and the milieu in which they perform their ambassadorial functions, before tackling the larger subject of Canada's image abroad.

When I entered it, the Department of External Affairs was as small as Canada's place then was on the map of international politics. In the 1920s and '30s its future was being shaped by a handful of unusually gifted men (my seniors in the Service), who shared the belief that Canada had its own very individual role to play in the world and their conception of what that role should be. Since then, of course, External Affairs has evolved into a great Government Department controlling dozens of Canadian missions abroad. The Canadian Foreign Service at the start was anxious to differentiate itself from traditional Foreign Offices, to eschew diplomatic trappings as far as possible and to display an almost-ostentatious lack of ostentation. The profession of diplomacy is, however, an international trade union which, whatever the national or individual

styles and origins of its members, stamps them all with its hallmark. The Canadian diplomat, like all other diplomats, lives a peculiarly amphibious existence at home and abroad. Abroad, one enjoys certain privileges and allowances, and also a special status. At home, one is a civil servant among tens of thousands of others, and the quicker one adjusts to the change the better.

Power is at the centre, as Winston Churchill once remarked. It is in Ottawa that all the decisions are made which affect our policy abroad. Much has been written lately, in Canada and elsewhere, about the decision-making process in foreign policy, and much of it has been written by political scientists whose journals explore the subject, sometimes with the aid of graphs or models of behaviour. These methods have produced studies of value, although often couched in language so specialized that those actually involved in the decision-making – the politicians and officials – might find it hard to follow them without taking a language course. Such studies are conducted in a cool climate of reasoned analysis which is remote indeed from the pressure-cooker of politics.

In reality, decisions are often taken in reaction to unexpected developments in the international field – a sudden revolution, a change in interest rates abroad. At home there are pressures from other Government departments with their special interests and responsibilities, and there are waves of public concern and agitation about particular causes. Sometimes policy swerves from its course, propelled by the necessity of the Government winning

a by-election, or as the result of a rash reply given by a Minister to an awkward question in the House of Commons. Then there are the time and human elements. As to the time element, in an age of instantaneous communications it is speeded up to a matter of moments, in which a decision may have to be reached or a previous decision reversed. A telephone call from one world leader to another may do the trick. The human element involves not only the personalities of our leaders and their advisers but the effects of strain, fatigue or ill-health.

The world of the diplomat
Diplomats, when serving abroad, away from Ottawa with its immediate political and departmental pressures, live in a different world, a world of official immunities. These immunities have been, most recently, codified by the Vienna Convention at an international conference held under United Nations auspices in 1961. The immunities are extensive and include complete immunity from any criminal action and most civil actions in the country where the diplomat is stationed, so that the Canadian foreign service officer serving abroad is in fact outside the law of that country, as, of course, are foreign diplomats stationed in Canada. Diplomatic immunity is far from being an artificial anachronism. Without it, diplomats stationed in hostile countries could easily become the victims of trumped-up charges. Diplomatic immunity is often misunderstood and sometimes causes irritation to the local inhabitants. The aspect which causes most irritation is the diplomat's privilege of parking his car wherever he likes. In recent years the number of parking tickets issued to diplomats in London alone – and left unpaid – numbered, over a ten-month period, more than 26,000. I am glad to say that, although not in law bound to do so, the personnel of Canadian Missions abroad are under instructions to pay such fines.

There is no aspect of diplomatic life which appears to the outside more artificial, and indeed sometimes more absurd, than that of protocol. This is particularly true in a country like Canada where we rather pride ourselves on being free of social practices which may be suitable for older class-ridden societies but are quite out of place here. The rules of protocol govern so much of the behaviour of the diplomatic community – rules of precedence, niceties of costume and seating at table. A dozen minor customs and regulations are all designed to safeguard the prestige and relative standing of the members of the diplomatic

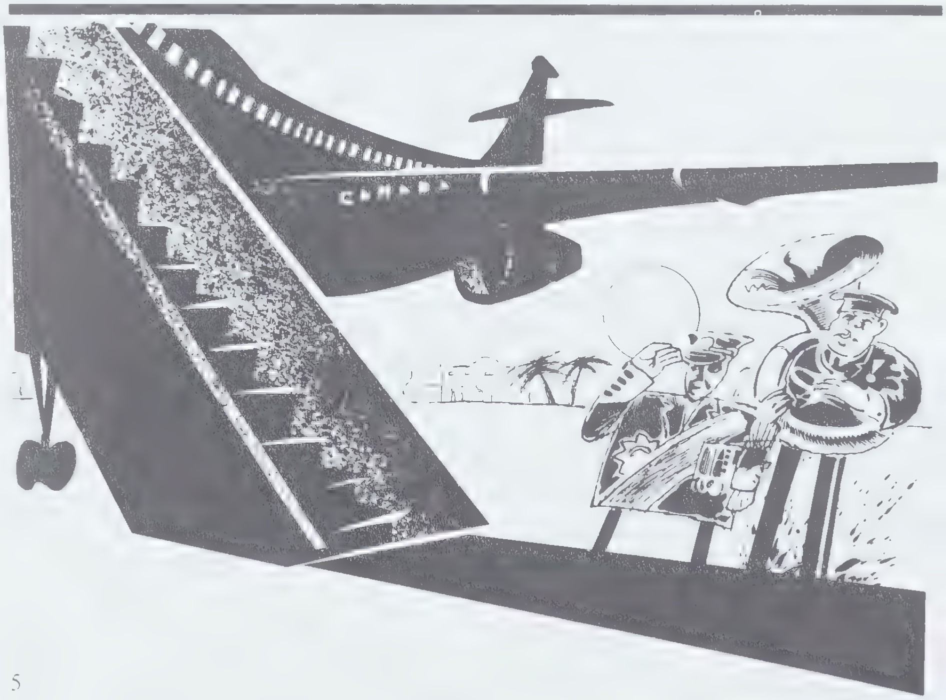
corps. There is a type of diplomat to whom matters of protocol come to assume absorbing fascination; there are others who regard them as a necessary evil.

Protocol is best understood as a reflection of the extraordinary sensitivity and touchiness of the nation state. Nations in their relations with each other, of which diplomats are simply the agents, behave very much like temperamental prima donnas. They fear "losing face" or being upstaged. They use the nuances of a snub or the extra cordiality of a gesture as a means of registering the temperature of their relations with other states. At what level of representation is a visiting Canadian Foreign Minister welcomed at the airport on arrival in a foreign country? How many guns are fired in salute for the arrival of a visiting Head of State? What is the degree of warmth or coolness expressed in an after-dinner toast? These apparently trivial things form a sort of code, carefully weighed and noted in the diplomatic community. They may be the first indications, the red or green light, in relations between states, indicating degrees of friendship or hostility.

The Embassy lifestyle

One of the features that separate diplomats in the higher ranks from the rest of the communities in which they live is their housing. This has always been a sensitive question for Canadians. Some critics would like the style of life of Canadian representatives abroad to reflect that of the average Canadian. They believe that the furnishings of Embassy residences, the food served there and the forms of entertainment should be as like as possible to the ordinary Canadian middle-class home. In practice, in most countries, Ambassadors are housed in conditions quite different from anything that could be afforded by the local inhabitants. This dates back to the days when there were plenty of large private houses staffed by many servants, and the Ambassador's residence was one of many, instead of standing out as an exception. One justification for maintaining these mansions is the necessity for entertaining. How much is diplomatic entertaining justified? Sometimes its value is greatly exaggerated, yet it still goes on all over the world. Canadian representatives abroad are involved in giving and attending luncheons, dinners and receptions. The Embassy provides a setting for the Canadian National Day, and the hospitality to visitors from home and the local colony of Canadian residents, for entertaining politicians and officials in the country to which one is accredited and visiting Canadian Ministers. All this requires a certain scale of physical "plant".

Perhaps this whole way of life will eventually disappear for one very simple reason – there will no longer be servants available and Ambassadors will have to retreat to modest flats and mount their dinners and receptions at the local hotels. They will then be faced by the great and growing problem of physical security. When I was Ambassador in Washington the Prime Minister of Canada, Lester B. Pearson, came on a visit and my wife and I gave the dinner for him and the President of the United States, Lyndon Johnson, and their wives. This involved the presence in the Embassy residence and grounds of some 20 United States security men. The cook threatened to leave. "They keep tracking through my kitchen," she complained, "while I am trying to cook the dinner". She also resented having to



prepare a light repast for the security officers simultaneously with the dinner upstairs.

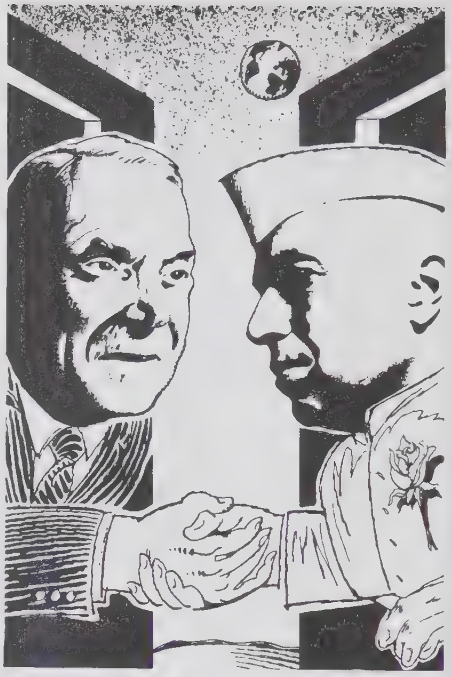
Women diplomats in the higher ranks are still something of a rarity in all Foreign Services; too much of a rarity. In our own Foreign Service we have had a handful of distinguished women diplomats, but both too few and too far between. The unsung heroines of the Foreign Service are the women in its administrative and secretarial posts, so essential to the smooth running of a Mission abroad. Canadian women have all the skills and personal qualifications for the top ranks in the careers, and we need more of them.

The attractions for Canadians of representing their country abroad are fewer than they once were. With the opening up of Missions in so many new countries, the ratio of unhealthy, remote and boring posts has increased. Then too, some wives of Foreign Service Officers – and this is increasingly the case – have interesting, remunerative jobs at home and do not look forward to the prospect of giving them up in order to accompany their husbands to a foreign post. Yet the wife of a Foreign Service Officer can play an important role in the representational and social side of life abroad. If she enjoys the stimulus of meeting a variety of people, if she likes entertaining, if she finds an interest in getting to know other countries, the husband and wife make a very effective team.

Rapport between leaders

The personality and achievements of the Prime Minister of Canada have much to do with establishing an image of Canada abroad, especially in these days when Prime Ministers are increasingly peripatetic and when their speeches and public appearances are featured in the press and on the television of the many countries they may visit. The same applies in some measure to our Secretary of State for External Affairs. Some Prime Ministers, although extremely effective at home, are not so successful in presenting an image of one's country abroad; others have sometimes enjoyed a higher reputation abroad than at home. Apart from the impression produced by our Prime Ministers on the public in the countries which they visit, is the effect of the personal encounters between them and their opposite numbers, the Prime Ministers or Heads of State.

The only people to whom Prime Ministers can talk to on a basis of real equality are other Prime Ministers. I have been lucky enough on many occasions to be present at such "face-to-face" meetings between Canadian Prime Ministers and their counterparts in foreign countries. In addition to the importance of the official agenda for discussion between them, it was fascinating to watch the manner in which they took each other's measure. There was always a period of small talk between the great men, customarily led off by a few mild jokes. Nothing of significance at this stage was said by either party, but if they were meeting for the first time they seemed to sense, not only on political grounds but on grounds of sympathy or aversion, whether this relationship would bear fruit in future.



This matter of personal rapport or distaste between the leaders of nations is one of those elements in international affairs least easy to forecast, escaping all computerized data and baffling the planners, but by no means negligible in its effects. Two examples in Canadian experience come readily to mind; the personal antipathy between President Kennedy and Prime Minister Diefenbaker, and the personal friendship between Mr. St. Laurent and Mr. Nehru. It is not always the antagonist in the international arena who arouses personal mistrust; it is sometimes the ally. In the conduct of Canadian foreign policy the effects of Prime Ministerial or Ministerial statements on international issues which are aimed at vote-getting at home, without regard for the long-term consequences abroad, are much to be feared. However, what really counts in the daily conduct of foreign policy is that the

Foreign Minister, in our case the Secretary of State for External Affairs, should have a strong position in Cabinet and be able to make his views prevail. A Foreign Minister may be a charming chap, much liked by his officials, but that is of little use if the policies he is advocating are regularly shot down by his colleagues or over-ruled by the Prime Minister. Of course in the worst case, one may have a Minister who is both disagreeable and ineffectual.

The relationship between the foreign press and our Missions and visiting Canadian Ministers or prominent Canadians in any field – business or the arts – is not always an easy one. It is notoriously difficult to get Canadian news into the columns of the foreign press. It is easier for the camel to enter the eye of the needle than to get a well-informed Canadian political story or considered editorial comment into the columns of the press of London, Paris or New York. Perhaps this is simply because our news stories are not very sensational; perhaps if we indulged in more revolutions, or more spectacular scandals or crimes, we would receive more attention. But these are extreme measures.

There are far too few representatives of the Canadian press permanently stationed abroad. In addition to bringing news of foreign countries to Canada they have been an attractive part of Canadian representation. Our actors, singers, artists and writers have also contributed enormously to a fuller view of Canada. A recital by Maureen Forrester, or the performance of one of our great ballet companies, is an artistic event in any capital. The opening of cultural centres in Paris and London, and now one planned for Washington, provides a showcase for the Canadian arts. Our missions are inundated with publicity material about Canada.

Some of this material is in itself valuable, but much of it ends up in the wastepaper baskets of the editors to whom it is sent. Visiting Canadian Prime Ministers and Ministers invariably hold press conferences on their arrival in the capitals they visit. (If they are wise, they do not confide in the press on their arrival at the airport and before they have taken soundings as to the state of local opinion.) If the Prime Minister or the Minister has something specific to say, something which is of news interest to the local community, all goes well. Sometimes the great man will be left surrounded only by the 20 or 30 Canadian journalists who accompanied him on the plane. There are dread memories of occasions when the audience rose one by one from their chairs and headed, discreetly but inexorably, toward the bar.

Canada's image still indistinct

The official and diplomatic face which Canada shows to the world is only one aspect of Canada as seen from abroad. Every Canadian who travels contributes in some small way, in encounters with foreigners, to the total picture of what Canada and Canadians look like from the outside. So does the impression that foreign tourists form of Canada and Canadians. Our widespread business and financial operations in other countries take the name and reputation of Canada round the world. Yet still the outline of Canada, of our national character, of our institutions, of our way of living, is somewhat indistinct in the minds of foreigners, and not least in the minds of our nearest neighbours, the Americans.

In my youth in the 1920s, Canada was attempting to define itself in terms of its differences from the British. This was the thrust of Canadian nationalism – to emerge from the remnants of the colonial influence, to throw off any trace of political, social, cultural inferiority vis-a-vis London and all that it stood for. Now we seem to be actuated, even obsessed, by the aim of establishing our differences from the United States. The ignorance of the American public about Canada is, in spite of any improvements in understanding, still a remarkable phenomenon. For, with all the multifarious links between our two countries, the lack of understanding, and indeed of interest, by our neighbours across the border is a recurrent surprise. Some of the roots of this go back into history.

The Loyalist emigration to Canada after the American Revolution is one of the important strands in the fabric of Canadian history. To the Americans it is a blank. The Americans see the Revolution solely as a struggle against the tyranny of British imperialism. They are not taught that the American Revolution was an American civil war and that thousands of Americans of all classes, including a high percentage of graduates of Harvard University, fled the country. They brought with them long memories and old grudges, and an inherited belief in law and order as opposed to what they considered li-

cence, and this tradition has become, at any rate up till now, a strong element in Canadian society.

The relationship between French Canada and the rest of Canada is, to the Americans, equally incomprehensible. Unaware that so far from wishing to assimilate French laws and language, we are attempting to evolve a bilingual nation, they discuss problems arising out of the separatist movement in Quebec with mystification, pointing out that the large French-Canadian immigration to the United States is well on the way to complete identity with other Americans, and wondering that we do not follow their example.

Another misunderstanding springs from their ignorance of our Parliamentary system. During my days as Ambassador in Washington I often came across their misunderstanding in one particular form – the differentiation between Cabinet Ministers and officials. In the American system, of course, members of the Cabinet are not elected; they are indeed officials of the highest rank. Canadian Cabinet Ministers visiting Washington are frequently described in the press as "Canadian officials". The basic distinction (or what used to be the basic distinction) in Canada between elected Ministers and civil servants remained mysterious to Americans. Another even more baffling phenomenon from the American point of view is the relationship of Canada to the Crown, and hence the frequent question is "How much do you Canadians have to pay to the Queen in taxes? How much does she cost you?" It is difficult to explain that while our Head of State is the Queen, the Governor General in Ottawa acts as her representative and that, unlike an American President, he is not elected. At this point they are inclined to shrug their shoulders in bewilderment. In my own opinion, this particular misunderstanding is not at all a bad thing. If we had a Presidential system in Canada it would be all too easy for the Americans to form a mental picture in which there stood, very tall and clothed in immense power, the President of the United States, while alongside him appeared another figure, very much smaller and less powerful, the President of Canada. So, they would be able to equate Canada in terms with which the Americans are very familiar – the top man and his lesser copy.

Bewilderment even in Britain

This lack of comprehension of our political and constitutional affairs is not restricted to the United States. Last year, during our prolonged acrimonious national debate over the patriation of our constitution, it was obvious that the British public and many British parliamentarians were at a loss to understand our problems. It was hardly to be wondered at. They were faced with what at first seemed to them a very minor matter – they were invited to rectify a constitutional anachronism, the existence of which they had long forgotten, if they had ever been aware of it. They then encountered a barrage of propaganda and special pleading, coupled with accusations of interference in Canada's internal affairs. Brochures and briefs, constitutional arguments and counter-arguments, gushed forth from Federal and

Provincial sources onto the heads of British Members of Parliament and Government officials. Never had they been so wined and dined, so cajoled and pressured, alternately by Canada House in London and by the Provincial Agents-General. Whatever understanding of Canada may, as the result of this operation, have penetrated the political and official worlds in London, the British public to the end remain mystified. One is faced with questions to which there is no very simple answer – "We thought that Canada was independent already. What is this fuss about?" . . . "Why do the French Canadians oppose it when your French-Canadian Prime Minister says that it is in the best interests of French Canadians?" Never was it more clearly revealed that no one understands Canadian constitutional questions except Canadians – and only a very few of them.

Irritating as these misconceptions about Canada may be, they must not create in us a complex of insecurity, particularly in our relations with the United States. We seem to dread being swamped by our neighbours and at the same time resent being ignored by them. This is not a healthy psychological basis for our dealings with Americans. We need plenty of firmness and a strong back-bone in negotiation, but not querulous nagging tinged with anti-Americanism. We must make allowance for the cumbrous process of decision-making in Washington without having it used by the Administration as an excuse to avoid their obligations. For their part the Americans would be wise to avoid, in their dealings with us, the hectoring tone employed by some members of Congress and even by some American diplomatic representatives.

The search for identity

A Canadian diplomat abroad has plenty of opportunity to reflect on the nature of the country he or she represents. The picture that one forms in one's mind is bound to be a personal one and does not always correspond with the official view. It seems to me that it's when we try to define Canadianism in ourselves that we run into difficulties. The search for a Canadian identity is too self-conscious a pursuit to engage most of us. The very words have a pretentious ring. Yet, however we try to express it, we Canadians are searching for a definition of what makes us a different, distinctive nation in our own eyes and in the eyes of others. For we are a people of double loyalties. This may be true of the members of other federal states; what is peculiar to the Canadian condition is the contrast between the strength of our provincial and regional loyalties – political, economic and sentimental – and the huge physical scale of Canada. For many of us our first love is for the landscape of our own province, for what we see around us as we are growing up. In my own case it was the rocky coast of Nova Scotia, the noble expanse of the harbour seen from the steep streets of Halifax, the orchards of the Annapolis Valley, the long-settled small towns so full of local character. Our first attachment is to the traditions, the interests, sometimes the resentments and grievances, of our own region. So it must be for other Canadians growing up on the Prairies, in the cities and farming communities of Ontario, or on the Pacific coast. These regions are so widely separated from each other, so dramatically different, that it is sometimes hard to envisage Canada as a whole, in all its varied vastness. In the case of Quebec, all such differences are of course immensely accentuated. French-Canadian society has held on to its own values and its own language for eight generations. No attempt at cultural assimilation has succeeded in the past, or is likely to succeed in the future.

The new Canadians, those not born and bred here, have not inherited the attachment to a province or a region. If their loyalties are double, they are to the memories of a homeland that they have left, or from which they have sometimes escaped, and their new country, Canada. Often their articulate enthusiasm for their new home, their pride in Canadian citizenship, puts Canadians of old stock to shame. The new Canadians take none of the blessings of being Canadian for granted.

The fact that we are a people of double loyalties does not mean that we need, or should, be a people of divided loyalties. Sometimes under the strains and stresses of the functioning or malfunctioning of our Federal system such divisions occur, but it would be a rash pessimist who believed that this presaged the break-up of the country. Yet the symbols of our nationhood often seem inadequate in compelling power. Other nations have inherited age-old traditions and picturesque ceremonials, or draw their legend from revolutionary heroes, men on horseback embattled against tyranny. Our founders were middle-class or middle-aged politicians in top hats and frock coats, emerging from a committee room in Charlottetown in 1867. They were

wise and courageous men, and we respect them as such. But do our hearts beat faster at tne memory of them? In recent years we have been engaged in an exploration of our own past, and the more we learn the more it is brought home to us that the creation of our country was indeed a quiet miracle achieved by remarkable men and women. Yet no representative personality or event crystallizes our national feeling. Nor does our national capital inspire it. Ottawa as a city has beauty and dignity, yet the name of Ottawa does not strike a deep chord of affection and admiration in the hearts of all Canadians. Indeed, it sometimes strikes a distinctly sour note. As the physical embodiment of our federal system it is a worthy setting for public occasions but no magnet for national sentiment. Neither are the Provinical capitals centres of local patriotism. A Provincial Premier is not usually regarded as an embodiment of provincial unity any more than the Prime Minister of Canada can be said to embody the unity of all Canadians. Party politics rule these relationships, but a nation's continuing identity is above and beyond Party politics. The attachment of Canadians to the Monarchy and the person of the Queen is still deep-rooted, as those who might be tempted to tamper with it would find to their cost. But our Head of State does not reside with us, is not a Canadian. Nor does any prospect of elevating the Governor General into a Head of State attract much enthusiasm. The installation of a Presidential system would alter the whole balance of our constitutional and legal arrangements and would precipitate conflict in the country. The Canadian national will cannot be embodied in any figure above provincial, political or linguistic divisions. We are better off with our Queen over the water.

The misleading stereotype

Our traditional view of ourselves has been that we are a moderate-minded, sensible lot, not given to self-dramatization. We have succeeded not only in convincing ourselves of this stereotype, but in convincing other people too, so that Canadians are often seen abroad as worthy, somewhat stodgy folk; nice people, but not very exciting. In my own view, this is complete nonsense. Just because we do not exhibit our emotions in public, except at football or hockey matches, it does not follow that we are bloodless or unemotional. It may mean that our emotions are bottled up most of the time. Our leaning towards compromise does not imply gutlessness, as we have shown in two world wars. Our moderation is not supine – anyone who attempted to interfere in our affairs could quickly spark our national pride. As for our "niceness", we are no nicer than other races; although we sometimes flatter ourselves that we are. As for drama, perhaps our most successful act has been to put over on others the impression of ourselves as uncomplicated. (The greatest Canadian actor in this line was the late W. L. MacKenzie King, who concealed his peculiar personality under a conventional veneer so successfully that he took in the world, including his fellow-Canadians.)

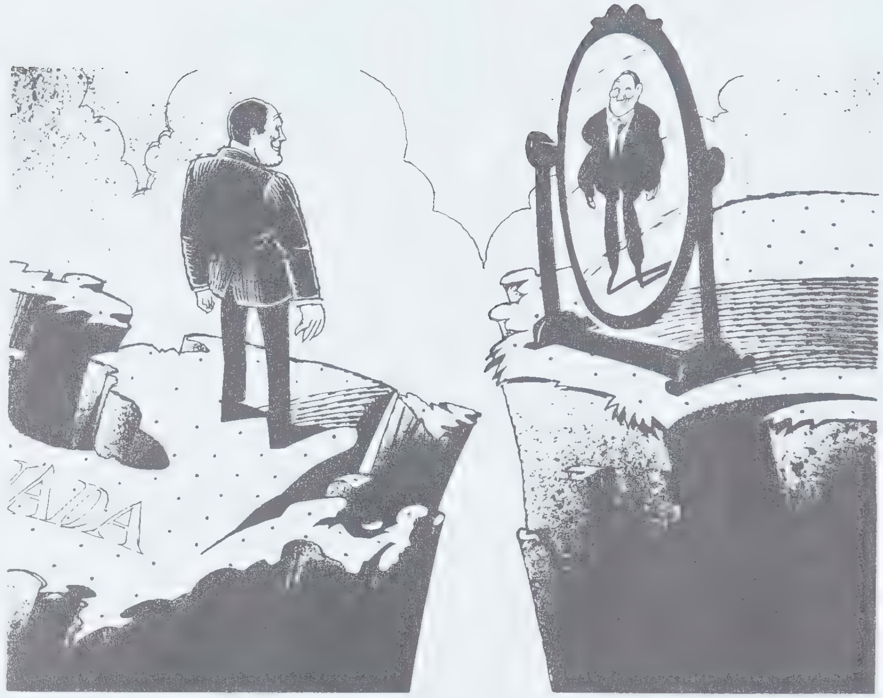
Our increased self-awareness is partly due to the flowering of Canadian literature, which has given us a more vivid and varied picture of ourselves. At the same time scholars have been rediscovering our history and critics have been exploring our national psychology. We have begun, very tardily, to preserve our architectural and historical heritage and protect our natural environment. Canadians have begun to look with fresh eyes at themselves and to discard conventional blinkers. We have come to appreciate that it took more than good sense and moderation to harness half a continent and build a nation, and that daring and imagination are among our human resources. We have ample cause for confidence in ourselves, yet the confidence is somewhat lacking; or rather, we seem to alternate between self-praise and uneasiness and anxiety. Of course, at this moment in our history, in economic depression and political sterility, we have plenty to be uneasy and anxious about. But our unease has deeper roots. Perhaps it has to do with the fact that the survival of Canada has always been a feat of balance. It takes nerve and steadiness to maintain the act, and that involves strain. Having emerged from the motherhood of the British Empire we now struggle for breath in the embrace of Uncle Sam. Meanwhile, we live one particular challenge which is also our particular opportunity – the accommodation of two radically different cultures, English and French. So that while we have faith in our future, we also have doubts and worries, sometimes concealed under a barrage of over-confident and optimistic public assertions.

Canadian unity is not a Public Relations job, nor can it be brought about by any ideological straitjacket imposed by the Federal Government on

our diversity. Canadians do not need to be lectured and cajoled, and sometimes threatened, into being good Canadians. National unity, national identity, call it what you may, flows from other and deeper sources in this country. Perhaps we are none the worse for our lack of an emotional and popular focus for our national feeling. In reaching after symbols of unity we could end up by producing disunity.

Politicians of all stripes are very prone to tell us what a great people we are and what a magnificent future awaits us if we vote the right way, or alternatively, to chide us for backsliding if we do not fulfill their expectations by conforming to their policies. Fortunately, Canadians have enough common sense not to swallow all these congratulations and admonitions. Canadian governments have always had a tendency to dish out good advice to other nations, calling upon them to behave themselves in conformity with our high moral standards, and to cease and desist from disturbing actions. We are a little too apt to insist by contrast upon the purity of our intentions. We have the more cause to be careful of the susceptibilities of other peoples because we are extremely susceptible to criticism of ourselves by others. This prickly sensitivity is not an asset to us.

We show to our best advantage in our association with the developing nations, because we ourselves have gone through a colonial stage in our history and know something of the birth pangs of emerging nationhood. Our relationship with such countries also brings to the surface the idealist strain that has always played a part both in



our aid programs and in our peacekeeping initiatives. In general, we are happier when we can fulfill a practical and humanitarian role, and this has brought us many good friends around the world. We resent condescension, real or imagined – "Who the hell do they think they are?" is the common Canadian reaction. Sometimes this attitude comes into play even in our relations with those with whom we have the closest ties of friendship and affinity – the British, French and Americans. We condemn in others what seems to us snobbery, cultural or social; whereas, while we have no class structure in the European or even the American sense, we have many social and cultural dividing lines of our own, and quite a plentiful crop of snobs.

Happily, most Canadians, and certainly the younger generation, are quite unaffected by any such symptoms of insecurity, and adapt with easy friendliness to the people in the countries where they find themselves.

As to the vexed question of our national identity, it appears that, in the long run, despite all our self-doubts and divisions, we have an instinctive sense of what it means to be Canadian and no intention of relinquishing the privilege. Sometimes this seems clearer viewed from a distant perspective than closer at home.

Conclusions

1. The Canadian image abroad is the mirror image of Canada at home. The qualities that have won us international respect are the very qualities needed for the smooth functioning of our federal system. These include an instinct for constructive compromise as against confrontation, a sense of "what the traffic will bear" in negotiation, and tolerance for the point of

view of others, which is not only necessary in international relations, but essential in holding our country together.

2. We have recently been passing through a period of self-conscious nationalism, and in the process have become rather inward-looking. This has coincided with a period of rapid and often violent change in the world about us. Faced with these dangers and complexities, Canadian public opinion seems somewhat adrift. We need a more continuous foreign policy with identifiable aims and objectives rather than intermittent reactions to events as they arise. Our public opinion needs to believe that Canada has a positive and consistent role to play in which all Canadians have a sense of involvement.

3. While we have an excellent foreign service, it is suffering from a lack of

purpose and a cumbersome administrative system. The present emphasis of our representation abroad is on trade promotion; this is an essential function but it should not exclude the central importance of our diplomatic and political relations with other states. In times of instability like the present there is always the possibility that our country may be confronted with an international crisis in which the government may have to make rapid decisions and assume heavy responsibilities. An experienced foreign service is indispensable for prior knowledge and understanding of the international factors involved.

4. We are regarded in most parts of the world as being one of its most fortunate nations. To the less fortunate our present economic recession would appear transitory and our political wounds largely self-inflicted. Seeing ourselves as others see us can be a useful exercise if it gives us back our sense of proportion in the midst of our current difficulties, and reminds us of our underlying strengths.

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Readers' comments and views about *Spectrum* and its topics are invited. Your response is a challenge.

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Strains and Strengths: Canada's Regional Economies in Troubled Times

by Russell E. Harrison

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Mr. Harrison was born in Grandview, Manitoba, and was educated at the University of Manitoba. After completing military service in Europe during World War II, he joined The Canadian Bank of Commerce in Winnipeg in 1945.

He was appointed to head the Bank's operations in Quebec in December, 1956, and he remained in Montreal until August, 1969, when he was appointed Executive Vice-President and Chief General Manager at the Bank's Head Office, Toronto. In 1973, Mr. Harrison was appointed President and Chief Operating Officer. In 1976, he was elected Chairman and Chief Executive Officer.

Mr. Harrison is a Director of: Royal Insurance Company of Canada Limited; Canada Life Assurance Company; TransCanada PipeLines; Falconbridge Nickel Mines Limited; MacMillan Bloedel Limited and Campbell Soup Company.

Mr. Harrison is active in community affairs as well as in business circles. He is involved with the Canadian Council of Christians and Jews Inc., Stanford Research Institute and The Conference Board. He is National Chairman, Ministries Enrichment Program, The Salvation Army; Member of the National Board of Governors, Junior Achievement of Canada; Honorary Treasurer, Army Cadet Development Fund, 1982 campaign. Mr. Harrison has also taken a lead role in fund raising for major Toronto hospitals.

The people of Canada are experiencing the hardest times they have known in decades. A failing national economy and worldwide recessionary pressures have been aggravated by inappropriate government policies, especially at the federal level.

A harsh economic season has spread across the land, bringing in its wake business failures, unemployment, troubled financial markets and debilitating disruption of our national economic life.

In previous volumes of *Spectrum* – in better if not balmy times – I have offered some perspectives on the national economy and on Canada's emerging role in the international economy. In this first issue of Volume 3, I can think of no more significant focus than Canada's regional economies: the strains they are undergoing; and the strengths they could bring to bear in shaping our economic future.

The greatness and fascination of Canada lies not only in our achievements as a nation, but in the distinctive character of our regions. Our regionalism is no cultural accident. It is rooted in hard economic reality and specific economic potential. The oil patch and the sou'wester are a lifestyle as well as an economic lifeline. Each region makes is own unique contribution to our natural life – economically, socially, and culturally.

Now all the regional economies are under stress: Ontario and Quebec manufacturers, both large and small, foresty and mining from Labrador to British Columbia and the Yukon, the Atlantic fisheries, the oil and gas industry in the West. Where is the Canadian economy headed? What are the prospects for recovery? Will regional disparities increase or diminish? Will the traditional regional patterns continue to change? These are vital concerns of all Canadians – wherever they live.

Strategic Factors in Canada's Economic Growth and Development
The business cycle – with its ups and downs, some sharp, some mild – has played a primary role in the development of Canada's regional economies; periods of prosperity followed by recession or depression have also brought about strategic shifts of regional emphasis in the Canadian economy. Growth and development were spearheaded first from the East, although briefly, and later, and for a much longer period, from the centre, particularly Ontario. As recently as 1968, the Economic Council of Canada noted in its Annual Report that differences in economic well-being and opportunity among the various regions and provinces had persisted with only modest change for more than 40 years. In the 1970s, however, the dynamic centre of the Canadian economy shifted for the first time to the West, primarily oil-rich Alberta.

Investment is a key factor in economic recovery and performance. Strong periods of economic performance in Canada's regions have usually been tied to strong investment performance. Weak investment tends to mean weak economic performance. In the next 10-15 years, energy investment will be a primary determinant of our prosperity. This is a theme I will be returning to.

Adapting to Change
In a recent *Spectrum* article on "Stress in a Depressed Economy", the late Dr. Hans Selye, spoke of the need to adapt to change. "Our first objective," he said, "must be to learn to cope with the stress of adaptation to change . . . both in our work and in our social goals". I believe this is as true for Canadian society in total and for the Canadian economy, particularly Canada's regional economies, as for the individual. The uncertainty of the current economic situation is a harsh reminder that forecasting is not simply an extrapolation of past trends, internationally, nationally or regionally. Unforeseen changes have altered Canadian and regional growth patterns in the past, and will do so in the future.

Our Natural Resources
Resources and people have always played a fundamental role in Canadian economic development. Through the interaction of resource activity with internal and external stimuli, the growth pattern of the Canadian economy emerged, the basic foundations of our economic structure were laid and the various regions matured.

Having a strong resource base underpinning our economy – indeed, all our regional economies – has many powerful advantages. Many of the products of our natural resources make a direct and continuing contribution to our daily lives. Jobs, yes, but also food for our table; lumber to build, finish and furnish our homes; oil, gas and electricity with which to heat, cook, drive our cars, illuminate and entertain us at home. Availability of resources has supported diversification into manufacturing in all regions of Canada, producing fabricated metal products, pulp and paper, chemical products, construction products, and processed foods which make direct contributions to the quality of our lives, at home, at work, in our communities.

We are far from being "hewers of wood and drawers of water". We should rather think of ourselves with pride as "powerful resource economies . . . plus". Therein lies our strength.

Regional Development: Before Confederation and After

By the time of Confederation, the basic foundation of the future Canadian economy was largely in place and Ontario and Quebec were already firmly established as the centre of economic gravity in the new nation. More than 75 per cent of the population lived in these two provinces. Waves of new immigrants were attracted to the burgeoning opportunities in Central Canada.

However, there were major differences between the emerging industrial structures of Quebec and Ontario. Lighter industries such as shoes, clothing, textiles and tobacco were established in Quebec to serve the growing needs of new settlers in Ontario and the West. Later, heavy industries such as agricultural implements, carriage making, iron and steel foundries and machine shops were attracted to Ontario.

The opening of the Prairies reinforced existing patterns. Rather than acting as a deterrent to economic growth in Central Canada, settlement of the West actually spurred it.

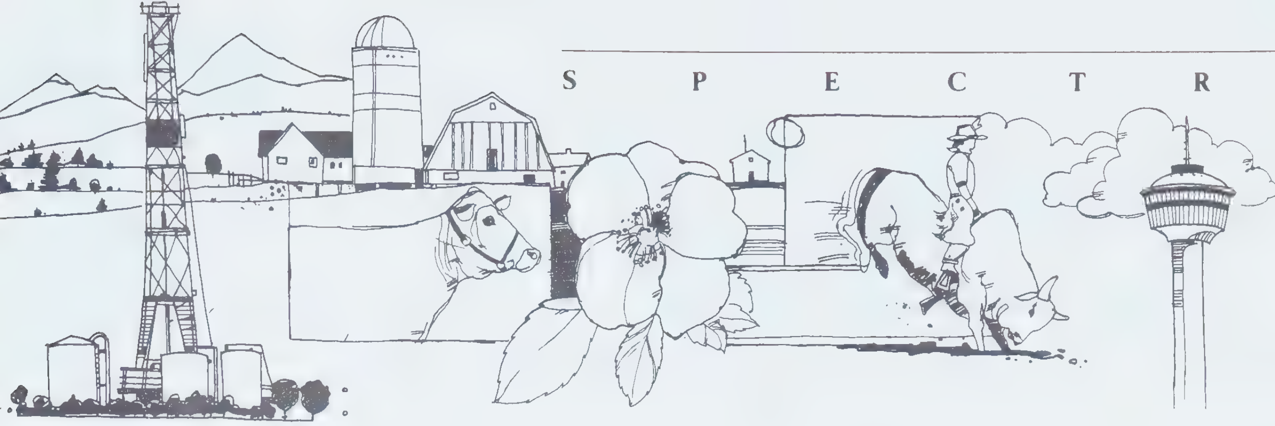
Manitoba, because of its proximity to Ontario markets, rail routes and shipping facilities on the Great Lakes, became a distribution centre for the Prairie provinces. There was some manufacturing, concentrating on railway shops, lumber and meat packing for local markets. In Alberta, soil conditions suited cattle grazing as well as wheat farming, permitting some diversification, and coal began to be mined in small quantities.

In British Columbia, as in other regions, resources were the catalyst in the development of the provincial economy. The gold rush on the Fraser, Thompson and Columbia Rivers was the signal for settlement to begin in earnest, and mining steadily expanded, accounting for 75 per cent of the province's exports by the time of Confederation. Fishing, agriculture and lumbering, however, soon challenged mining in importance, while the natural barrier imposed by the Rocky Mountains and the significant shipping distances to Central Canada stimulated local manufacturing. British Columbia became an important Pacific coast trade centre, developing export markets in the Western United States, China and Japan.

The Post-War Period

By the end of World War II, regional disparities had become a major issue. The relative position of the Atlantic Provinces had continued to deteriorate and the Prairies (with the major exception of Alberta, site of post-war oil discoveries) seemed to be stagnating. Moreover, the overwhelming dependence of the former on fish and lumber and the latter on agricultural resources seemed to hold back major industrial development. Restricted by their small populations, lack of diversity and dependence on external resource markets, these regions were extremely volatile in growth from one year to the next.

The high prosperity of the Canadian economy in the first two post-war decades had little effect on reducing these regional disparities, since the prosperous regions reaped a disproportionate share of immigration and investment.



Ontario witnessed the most sizable real increase in population, attracting 53 per cent of Canada's total foreign immigration. However, proportional to existing population, British Columbia and Alberta experienced the highest annual increases. In the case of British Columbia, the net immigration from other provinces exceeded that of Ontario, while all other provinces suffered net outflows of population.

Population increases moved in lock-step with economic growth and capital investment was the key generator of economic growth. Therefore, those provinces attracting adequate investment capital earned a significant dividend in both economic performance and population growth.

The impetus for the investment boom of the 1950s came from manufacturing. Stimulated by strong domestic and foreign demand, a broadly-based expansion of productive capacity ensued. The growth trajectory was so vigorous it spread to utilities, resources and construction, producing one of the most favourable investment climates this country has ever known. By 1957, capital investment accounted for 26 per cent of Canada's Gross National Product. In proportional terms, Canadian investment has not been that significant since.

While the initial upturn in Canadian investment after World War II was triggered by consumer-goods manfacturing, investment in this sector was ultimately overshadowed by massive spending in resources, utilities and heavy manufacturing. Accelerating foreign demand encouraged development of primary mineral, petroleum and forest reserves, this in turn acting as a catalyst for the expansion of related manufacturing facilities. Extensive new production of pulp and paper in British Columbia and Quebec, oil developments in Alberta and the growing demands of the iron and steel industry in Ontario burdened existing utilities. Construction of new electric power plants followed in those provinces, coinciding with construction mega-projects such as the St. Lawrence Seaway, the TransCanada, Interprovincial and Trans Mountain Pipelines. Petroleum refining industries launched in Sarnia and Vancouver laid the foundations for a Canadian chemical industry.

The 1970s

It was clear even before the upsurge in western energy development that Central Canada's importance was weakening. The prosperity of the post-war era had given way to a period of much slower economic growth. Population increases of the magnitude experienced in the 1950s and 1960s – which had powered much economic expansion – proved to be unsustainable and average annual growth slowed to barely one per cent. Investment lost its former vigour, especially in the manufacturing sector, causing a noticeable slackening in the manufacturing potential of Central Canada.

Government policies in the late 1960s and early 1970s seemed to aggravate the economic situation in Ontario and Quebec. The recession of 1975, compounded by a wage explosion, loss of manufacturing competitiveness and shrinking export markets, hit hard. Slow recovery and persistent excess industrial capacity stalled any upturn in capital investment. The newly established Foreign Investment Review Agency and the profit controls announced in 1975 added to uncertainty; and with the election of the Parti Québecois in 1976, investor confidence retreated. The resulting lack of industrial expansion and modernization made it even more difficult for Central Canada to hold existing export markets as lower international tariffs on many of the region's manufactured products were phased in by the General Agreement on Tariffs and Trade later in the decade.

The course of internal and external economic events had a different effect on the other regional economies. As the Atlantic provinces relied heavily on imported oil, particularly for electric power generation, the abrupt rise in foreign oil prices was especially damaging. On the positive side, federal equalization payments and oil import subsidies softened the impact of the price rise. Super-depletion allowances spurred offshore oil and gas exploration, feeding hopes of a North Sea-style hydrocarbons boom. Sizable DREE grants helped to revitalize the fish-processing industry. The 200-mile limit and revised quotas helped restore fish stocks.

But it was Alberta, British Columbia and Saskatchewan that benefited most from the new trends. The existence of their ample energy resources was already well known. The policies of the Canadian Government, now geared to promoting Canadian energy self-sufficiency, and supported by western provincial initiatives in the oil and gas

sector, led to unprecedented growth. People poured into the west to take advantage of the new opportunities and high wages created by the oil and gas boom. Substantial resource revenues enabled these provinces to finance the demands of a growing population for government facilities and services. Programs to assist home ownership, lower taxes and promote manufacturing were also extensive. By contrast, widening manufacturing deficits and growing fiscal strains preoccupied the Eastern and Central provinces.

The profound regional impact of these trends was evident in the diverging growth rates of the energy-rich provinces and the rest of Canada. Between 1970 and 1980, the combined output of Manitoba, Saskatchewan, Alberta and British Columbia increased by 5.1 per cent annually, in contrast to the 3.4 per cent average in the Central and Eastern provinces. Alberta increased its share of Canadian output from 8½ per cent to 12 per cent, while Ontario's fell from 41½ per cent to 39 per cent. Ontario technically became a have-not province, and regional disparities took on a new meaning.

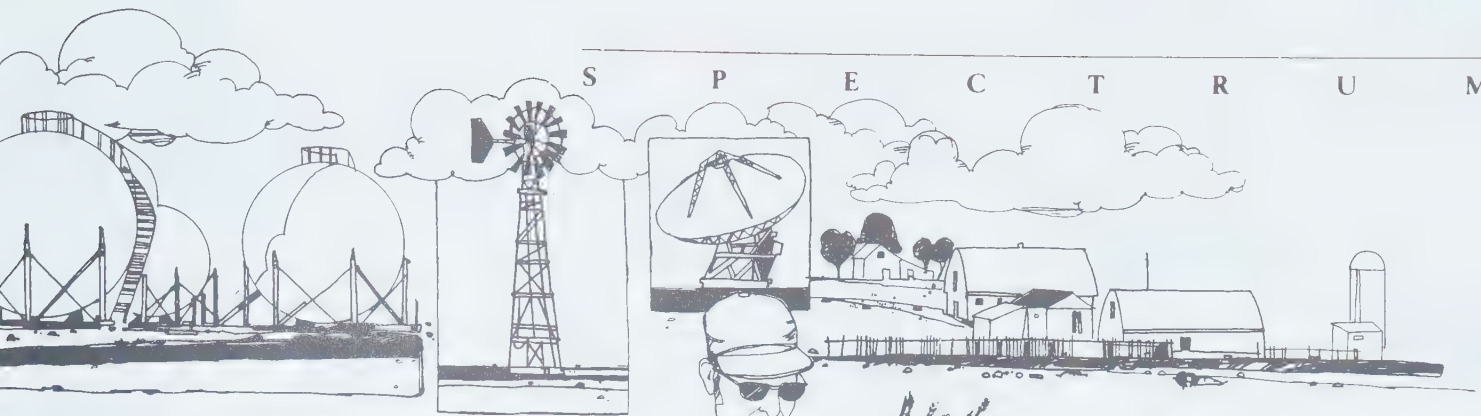
Aside from fundamental structural differences, there was another reason for growing disparities between east and west. Ontario and Quebec had attained a certain maturity and could not expect to maintain the high growth rates of the past. Alberta, British Columbia and Saskatchewan, on the other hand, had entered a major development stage. They were experiencing the same phase of the growth cycle as Ontario in the 1950s and 1960s, when the foundations for Ontario's industrial base were laid. Recent energy investment in the western provinces has had the same kind of broad stimulative effect that the 1957 investment boom had for Ontario. For example, the value of commercial building permits in Alberta has since 1979 outranked Ontario, a province four times its size in terms of population. Personal income per capita in both British Columbia and Alberta has now surpassed Ontario.

Nevertheless, the prosperity of the West has yet to bring about diversification of their economies in a significant way. The drive to enlarge the existing manufacturing base in Alberta and Saskatchewan is still at a relatively early stage. Petrochemical investments in Alberta give an indication of other spinoffs in the manufacturing sector which may result from further energy development, and Saskatchewan has taken important initiatives in areas such as communications. Yet, while these could become a catalyst for additional economic growth in the 1980s, historical experience demonstrates that a massive inflow of capital is required before any really major shift in regional economic profiles can be achieved. Moreover, such shifts are likely to be postponed until the Canadian economy is released from the grip of high interest rates, sagging real growth and an increasingly pessimistic investment climate.

Present Performance

A preferred growth scenario for Canadian prosperity in the 1980s has centred around the development of abundant energy resources, particularly the movement of large amounts of capital into energy-related projects. Multi-billion dollar "mega-projects" such as Alsands, Cold Lake and the Alaska Highway Natural Gas Pipeline, along with the offshore exploration efforts on the East Coast and the Beaufort Sea, development of conventional oil and gas reserves, and a multitude of possibilities in coal, uranium, electric power and petrochemicals, would create an investment boom rivalling that of the 1950s. Cumulative energy investment could total $300 to $350 billion over the decade. An investment boom on this scale could reduce regional disparities, stimulate diversification of the Atlantic and Prairie economies and revitalize manufacturing industries in Central Canada, touching all sectors of the Canadian economy.

However, several problems now loom over the development of Canadian energy resources, east and west. A deep recession, weak international oil prices and high interest rates define a gloomy background. The Alaska Highway Gas Pipeline has yet to arrange satisfactory financing. Disputes over the control and ownership of East Coast offshore resources have yet to be adequately settled. Federal energy policy and federal-provincial energy disputes have inhibited the western energy industries.



The National Energy Program, introduced in October, 1980, made sweeping changes in the rules governing the petroleum industry in Canada. Its major aims were: to gradually raise Canadian oil prices towards world levels; to encourage Canadian energy self-sufficiency; and, simultaneously, to increase Canadian ownership of domestic oil and gas production to 50 per cent by 1990. The NEP was a strong assertion of economic nationalism and an attempt to strengthen the power of the federal government by increasing its share of oil and gas revenues. Alberta's retaliation through oil production cuts disturbed the already unsettled environment of the energy industry. By the time the dispute was settled in September, 1981, Cold Lake had been cancelled, investment in the oil and gas sector was stagnant, world oil prices were falling and both foreign and domestic energy demand had declined, throwing many of Canada's planned energy ventures into limbo. Oil prices may not be high enough to guarantee the viability of many undertakings under the current tax and royalty regimes, given the dramatic increase in construction costs.

The NEP and the changed oil price outlook drastically reduced energy investment in the conventional oil and gas producing areas of Alberta and British Columbia. Activity in petrochemicals, electric power and the southern pre-build portions of the Alaska Pipeline, projects which did not rely directly on the NEP or the level of oil prices, were the only factors buoying investment sufficiently to keep the economies of the western provinces growing through most of 1981.

By late in the year, it became clear that even the energy-rich provinces, without the massive stimulus of energy investment, could no longer withstand the external pressures. Unemployment rates rose dramatically in British Columbia and Alberta. Retail sales and housing starts softened as the population inflow waned and high interest rates took their toll. Offshore markets for their primary resources and related manufactured products have severely slackened.

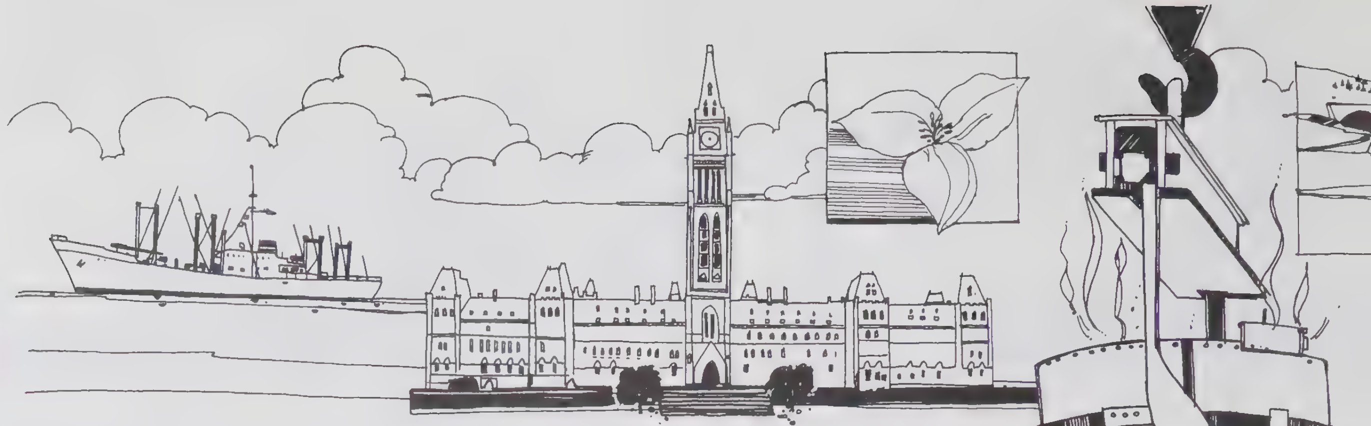
From a western perspective, British Columbia has been hardest hit by the current recession. Outlays for mining and electric power are barely keeping pace with inflation. Spending in the chemical industry is only half that of 1981. Total capital investment is actually expected to decline by one per cent in the province this year, compared with the 23 per cent gain of 1981.

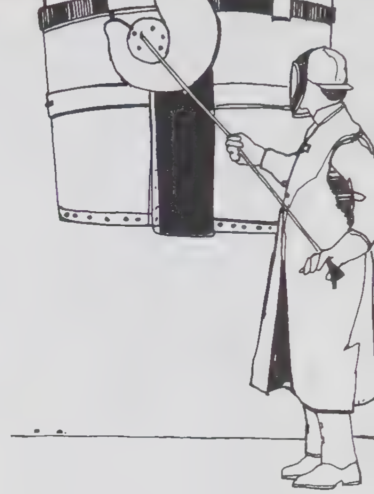
In Saskatchewan, as well, events on the energy scene have seriously eroded investor confidence. Heavy oil and uranium projects will support provincial investment through 1982 but without the major impact of prior years. The completion of the eastern section of the pre-build portion of the Alaska Highway Pipeline, uncertainty regarding the future of a heavy oil plant and the depressed state of uranium markets have instilled a general atmosphere of uneasiness in Saskatchewan.

This has spread to all sectors of the provincial economy – financial, commercial, trade and manufacturing – reducing investment growth to a minimal 1½ per cent this year.

Even Alberta is finding it impossible to muster any economic growth this year. With investment estimated to rise only 7½ per cent, retail spending at a standstill and unemployment rates almost twice the level of 1981, Gross Provincial Product could well decline by more than two per cent.

As in the past recessions, Ontario and Quebec are suffering significant declines. Flagging U.S. demand for manufactured products, compounded by weak consumer spending, disastrously low construction activity and falling corporate profits, contributed to the seriousness of the downturn. Gross Provincial Product is forecast to decline by more than three per cent, the worst contraction of the post-war period.





The Atlantic provinces, even with the intensification of petroleum exploration programs off Newfoundland and Nova Scotia, cannot overcome the cumulative impact wrought by curtailed minerals, lumber and fish exports. They are also forecast to experience a serious decline.

The Prospects Beyond 1982

I am convinced that the realities of Canada's present economic situation demand a fresh stock-taking of our economic future. It now appears likely that Canadian economic growth will continue to slip as it has done in each of the decades following World War II. With sharply reduced expectations for energy development, and limited potential for productivity advances and population growth, real growth in GNP may fall from the 5.2 per cent of the 1960s and the 3.7 per cent of the 1970s to only 2½ to 3 per cent in the 1980s.

Recent trends underline the limitations of both the Canadian and the regional economies. The open nature of our economy, our dependence on external markets for our resources, competition from alternative supply sources and exposure to economic policies in the United States and other countries pose specific constraints. Expansion in the western provinces may not lead Canadian growth by as wide a margin as once imagined. The Atlantic provinces, despite their ample opportunities, will be restrained by their fundamental structural shortcomings.

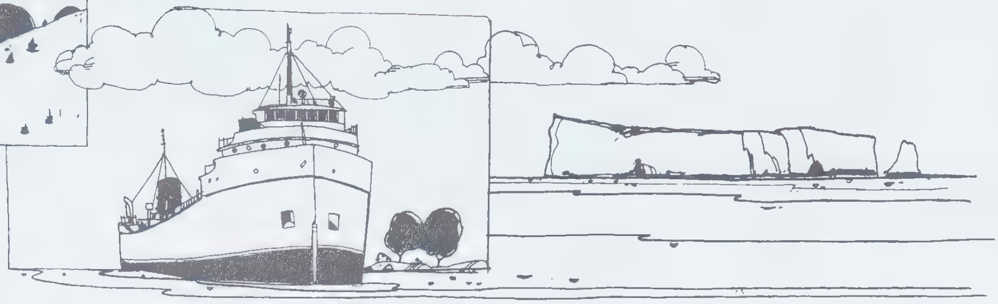
As I have stressed, energy investment has the single greatest potential to lead Canadian economic recovery and growth, because of its direct impact; and because of potential massive linkage impacts, generating demand for industrial goods and services, and, through employment effects, demand for housing and consumer goods. However, economic and political conditions have severely reduced the likelihood of a major energy investment boom in the 1980s. The oil sands projects have been indefinitely postponed. The federal-Newfoundland dispute over offshore ownership could threaten development of the Hibernia field; subsidization of foreign oil imports has recently made imported oil cheaper than domestic supplies and curtailed Alberta production. Of the projects that do proceed, a number may be scaled down. However, the agreement between Nova Scotia and the federal government to share offshore oil and gas revenue will help offshore developments in that area.

Energy development could still generate billions of dollars of investment in Canada between now and 1990, playing an important but not decisive role in national economic growth. Various mega-projects will eventually proceed, but individual developments will be spaced out over the decade. This should eliminate "bunching" problems and reduce the strain on financial, labour and equipment markets. Nonetheless, the reduction in Canadian energy investment, now estimated at around $50 billion, undoubtedly weakens the prospects for overall Canadian economic growth in the medium term.

Shifting Regional Influences

Lower expenditures for development of synthetic oil from the tar and oil sands and increased outlays for East Coast and Beaufort exploration will also shift the regional impact of investment spending.

To date, most of the cutbacks have occurred in Alberta and British Columbia. Alsands and Cold Lake, together totalling more than $25 billion and exceeding the entire estimated energy outlays in the Atlantic provinces or the Arctic, were to have accounted for as much as 10 per cent of



Canada's total energy expenditures over the 1982-1987 period. Their cancellation has had a substantial effect not only on Alberta's economy, but on machinery and equipment suppliers in Ontario as well. Postponement of the remaining northern leg of the Alaska Highway Natural Gas Pipeline is an added source of concern to steel producers in Ontario and Saskatchewan.

In Alberta's case, the loss of these mega-projects, damaging growth prospects throughout Canada, is not wholly disastrous to the province itself. Activity in other energy sectors can at least partially fill the void. Smaller heavy-oil projects, expansion of existing tar sands plants, continued outlays for conventional oil and gas, and significant undertakings in the petrochemical field could still attract billions of dollars of investment during the next five years, ensuring further growth in population, housing and commercial construction, services and manufacturing.

In Saskatchewan and British Columbia, energy projects, although of less importance than in Alberta, remain sizeable. Development of British Columbia's abundant coal and gas reserves is still large enough to underwrite investment in new natural gas processing facilities, petrochemical manufacturing and expanded electric power generation. Small heavy-oil projects and uranium mining should support growth and diversification in Saskatchewan.

However, while 50 to 60 per cent of total energy investment will occur in these three western provinces, economic growth in this decade, unless one or more of the mega-projects are reactivated, will be much lower than in the recent past.

The Atlantic provinces and the Arctic region can also expect significant stimulus from the energy sector. Capital for exploration and development of the Arctic and East Coast offshore reserves should generate $35 billion in investment by 1990, 11 per cent of the Canadian energy total. Offshore oil and gas, the Lower Churchill Falls power development in Labrador and coal mining in Nova Scotia greatly improve the economic potential of the Atlantic region. While some activity in the service and manufacturing industries adjacent to the oil and gas play is already evident, major spinoffs are still to come.

Ontario and Quebec, with minimal energy resources of their own apart from electric power, both hoped to profit from the energy development dynamism in the east and west. Shipments of manufactured products from Central Canada to the west and the Atlantic will gradually increase over the period but at a much slower rate than previously expected. Additional capital spending in the petroleum and chemical industries has already occurred but future undertakings are being pared down.

However hydro projects could, over the decade, be as important to Canadian energy investment as oil and gas. Unquestionably the largest projects are in Quebec and Ontario and are essential to the economic growth of Central Canada through most of the decade. None of these projects is in long-term jeopardy, but slow growth in electrical demand and the paucity of industrial spinoffs associated with the new plants may push the start-up of larger undertakings into the 1990s.

Future growth in the provinces does not, of course, depend solely on energy and related activity. In fact, energy by itself assumes only a minority role when balanced against non-energy activity. Expenditures for agriculture, forestry, fishing, construction and housing, government and the non-energy portion of mining, manufacturing and utilities, account for more than 70 per cent of Canada's total investment. Energy outlays account for less than 30 per cent. What *is* important is that energy serves as a potent catalyst for activating growth in the non-energy sector with its enormous potential for attracting population and inducing chain reactions in all forms of construction, consumer spending, manufacturing and services.

In Central Canada, the non-energy sector is currently responsible for more than 80 per cent of the total investment, compared to less than 50 per cent of total investment outlays in Alberta. Ontario and Quebec, given their manufacturing orientations and comparatively small energy undertakings, will rely heavily on non-energy activity. In absolute terms, these two provinces will continue to account for the most significant portion of Canadian non-energy investment. However, it is a fair guess that their share of the national non-energy total will decline over the decade as ever-greater investment in both energy and non-energy projects is drawn to the energy-producing regions.

Consequently, the average rate of economic growth in Central Canada will continue to soften, as it has done consistently since World War II. With an estimated annual growth rate of only 1½ to 2½ per cent over the decade to 1990, Ontario and Quebec will trail the national average by at least one-half to one percentage point.

The Prairie region, led by Alberta, should continue to exceed Canadian growth by a healthy margin. While British Columbia's record may not be as impressive, its enormous supplies of natural resources should enable the province to overcome current problems over the longer term. The significant scope for expansion of services and manufacturing in all the western provinces will bring further diversification and maturity.

A similar, though less intensive, process will take place in the Atlantic provinces. Newfoundland and Nova Scotia may be able to match average growth rates at the national level. However, the Atlantic region as a whole is unlikely to improve its present circumstances significantly, relative to the rest of Canada.

In summary, I see the 1980s as promising moderate growth prospects for each region, with much depending on the scale of new energy investment. However, old structural problems will persist. There is significant scope for growth in the Atlantic provinces, but lower personal income per capita and higher unemployment rates than elsewhere are likely to remain a continuing challenge. Saskatchewan will still be largely dependent on agriculture, British Columbia on minerals and lumber and Central Canada on manufacturing.

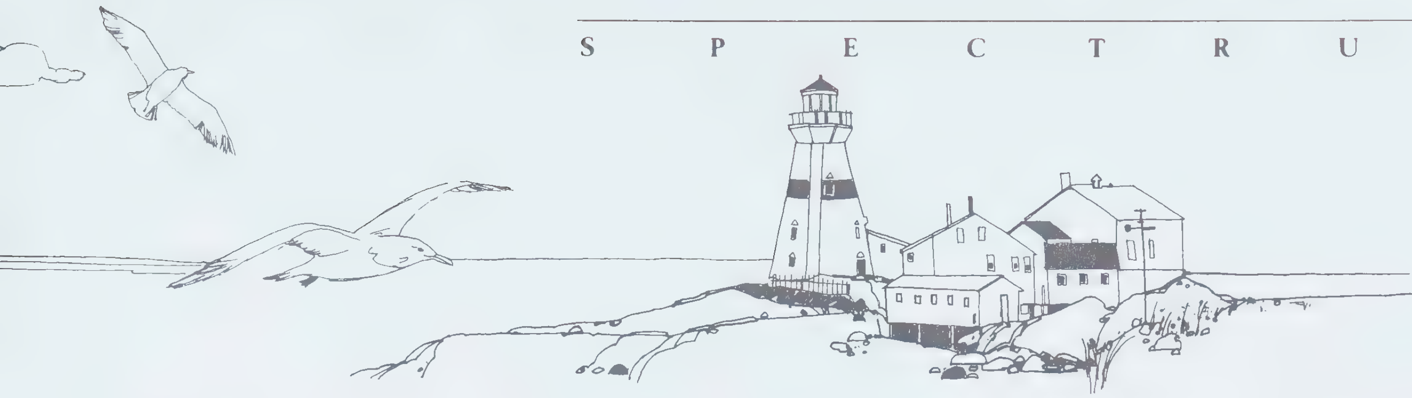
Policies for Partnership and Progress
Disparities in regional economic growth do not lend themselves to easy solutions. For the remainder of the 1980s, economic policy makers in Canada face a daunting list of challenges.

In the short term, recession is the major problem. While international forces are partly to blame for our difficulties, it must be realized that we are, to a considerable extent, the authors of our own misfortune. Policies such as FIRA and the National Energy Program continue to make Canada an unattractive place to invest in the eyes of foreign businessmen. Our high rate of inflation relative to that of the United States continues to undermine our competitiveness on international markets, and the enormous size of the federal and some provincial government deficits is alarming. There is particular concern about the federal government's ability to bring its deficit under control since expected future revenues from oil and gas taxes have diminished significantly in the wake of the decline in world oil prices.

Joey Smallwood has remarked that "what really matters in Canada is a standard of private living and a standard of public services". The fiscal crisis in Canadian governments, especially at the federal level, and our persistently weak economic performance will pose hard choices for us as we strive to fulfill our economic aspirations.

As a high-wage economy with weak productivity growth, we are under increasing competitive pressure from other countries, especially newly industrialized countries able to produce manufactured goods at substantially lower labour costs. It will not be easy for governments or the private sector to devise strategies to market high-wage-based products and services in world markets, as we must if we are to maintain, let alone increase, our standard of living.

We face equally hard choices in the government sector. Burgeoning public-sector deficits reflect the inability of our political leaders to come to grips with the affordability of high and universal standards of public services,



particularly in the health and social welfare fields which account for the largest portion of public-sector budgets. The time is fast approaching, if it has not already arrived, when we will have to find substantially less expensive ways to maintain basic standards of health and income security and other expensive government services.

As the past clearly indicates, investment plays a central role as the engine of our economic prospects and performance. Creating a favourable climate for investment, with an emphasis on investor confidence, must become a major priority of government policy once again. Creating such a climate will require several measures: far tighter control of government expenditure; significant efforts to alleviate tax burdens; effective federal-provincial co-operation, especially in areas with direct economic impacts; and specific policy measures to foster economic growth and development.

Improving the ability of the capital markets to channel funds to new productive investment is one important area. This improvement will require first and foremost a major lowering of the federal deficit and its demands for government borrowing; and significant reduction in persistently high inflation. Only then can interest rates moderate to provide a stable basis for longer-term investment financing. The latest federal budget began to address public sector wage settlements as a partial effort on the inflation front, but there have yet to be firm indications as to how or when the federal deficit crisis will be addressed.

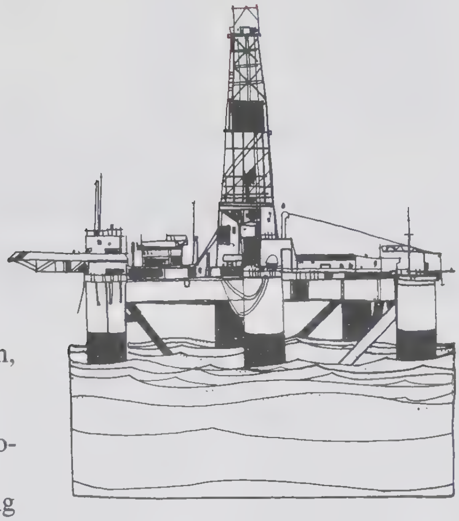
Both federal and provincial governments should be examining possible avenues to enhance the capacity of national and regional financial markets to raise new capital for productive investment, such as recent proposals to simplify procedures for junior mining and industrial companies to raise equity capital on public stock markets.

Official restrictions on foreign investment, traditionally a key contributor to Canadian economic performance, require a broader evaluation than the minor adjustments to the Foreign Investment Review Agency announced in the federal budget. Bureaucratic review of foreign investments by FIRA and discrimination against foreign investment in the National Energy Program have made Canada significantly less attractive in the eyes of foreign investors. One approach to reform of FIRA which should be considered is illustrated by recent changes in the Bank Act. These have liberalized access to the Canadian market for foreign banks on a basis which provides reciprocal advantages to Canadian banks abroad, according to rules which are clearly set out, not subject to broad bureaucratic discretion. The number of foreign banks setting up in Canada is now approaching 60, which illustrates the impact this new legislation is having.

Provincial governments have an important role to play in the development of regional economies in the 1980s, both alone and through increasing co-operative efforts with the federal government. Provincial action is particularly important in creating a supportive climate for energy projects in areas within their jurisdiction: coal and gas in British Columbia, oil and gas in Alberta, Saskatchewan and Manitoba, electric power in Manitoba and Central and Eastern Canada, offshore oil and gas in the Atlantic region.

The federal and provincial governments must also give determined policy attention to support for investment in the non-energy sector, especially manufacturing. We run a huge deficit in manufactured end products in international trade. To overcome this problem, Canada's manufacturers must accept the fact that rapid growth is no longer to be found in North America, but in the newly industrialized countries, primarily in Asia. The federal government has recognized the importance of trade policy in our foreign relations by recently transferring the Trade section of the Department of Industry, Trade and Commerce to External Affairs.

I am convinced that we must develop innovative strategies which will advance our interests as a high-wage economy. We must diversify our access to exploitable technologies, perhaps away from traditional reliance on the U.S., as exemplified by Bombardier, which recently won a major public transit contract in New York based on licensing Japanese technology. We must give more emphasis to identifying exploitable technologies, and not only to the high-risk, more uncertain research and development end of technology-based growth.



One of the lessons learned from Japan, and increasingly from some other countries, is that sophistication in acquiring and exploiting world technologies is as important as indigenous technological development in spurring economic growth.

At home, we must improve the workings of our own economy, in particular by resisting temptations to erect artificial barriers to the interprovincial movement of goods, capital and labour. The mobility provisions of the new Charter of Rights represent one partial step in this direction.

In Conclusion
Regional strains and regional strengths have dominated Canadian economic life for generations. Our vulnerabilities, brought to the fore in difficult times, may preoccupy us but should not distract us from a firm, long-term focus on our continuing strengths. *Powerful resource economies . . . plus:* that is the economic foundation of Canada and its regional economies.

There is, of course, no warranty on our economic future. We may properly hold government accountable for its errors and mismanagement, but the best government cannot guarantee our future. A strong economy requires strong individuals and well-managed enterprises, able to take intelligent risks and surmount obstacles. We should be asking ourselves whether our own demands that government protect us from economic risk and guarantee standards of living have not been part of the problem, because such protection is illusory. We should be asking less of governments, and insisting that they take less from us in return. We can then concentrate our energies where they will really count – in developing our own regional economies, an economic endowment with which we are abundantly blessed.

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Canada and East-West Relations

by Robert A. D. Ford

After being graduated from the University of Toronto and taking a Master of Arts Degree at Cornell University, Robert Ford served on the staff of the History Department of Cornell. In 1940 he joined the Department of External Affairs and held appointments in the Canadian Embassy in Rio de Janeiro and at the Canadian High Commission in London. He was a member of the Canadian Delegation to the First General Assembly of the United Nations in 1946. Between 1946 and 1954 he was Second Secretary and then Chargé d'Affaires at the Canadian Embassy in Moscow.

After serving as Head of the European Division, External Affairs, in Ottawa, Mr. Ford was appointed Ambassador to Colombia, then Ambassador to Yugoslavia. Between 1961 and 1964 he was Ambassador to Egypt and to the Sudan; between 1964 and 1980, Ambassador to the Soviet Union and concurrently to Mongolia. He has served as a Special Adviser to the Canadian government on East-West Relations and is a member of the Independent Commission on Disarmament and Security Issues.

Mr. Ford received the degree of Doctor of Letters from the University of Western Ontario in 1965. In 1971 he was appointed a Companion of the Order of Canada and was awarded the Gold Medal of the Professional Institute of the Public Service of Canada. He is the author of three books of poems: "A Window on the North", for which he received the Governor-General's Award: "The Solitary City"; and "Holes in Space".

Robert A.D. Ford, C.C., M.A., D.Litt.

It is perhaps a platitude to say that East-West relations are going through a period of considerable tension; but we cannot afford to indulge in platitudes in the nuclear age.

What determines the relations between NATO and the Warsaw Pact and above all between the United States and the Soviet Union is of vital importance to all of us. No country can calmly sit back and watch with indifference what happens between the super-powers. Even the European neutrals have an immense stake in the development of ways and means of living without recourse to war.

This sounds like a negative concept and in a sense it is, because it would be naive to think the competition between the two systems is going to recede. Apart from the geo-political factors involved, the Soviets are motivated by an ideology which believes in the superiority of the communist system, and in the inevitability of its gradually winning out in the long run against its opponents. But since the time of Krushchev, the Soviets have made it clear that they do not think this competition includes war. They are realists enough to recognize that war in present circumstances could not be controlled or limited and that it would lead to nuclear exchanges endangering if not annihilating Western civilization.

The policy of "peaceful coexistence" which embodies this basic approach to relations with the West is hardly a new doctrine. It was used in the early days of the Bolshevik régime but fell into desuetude and was only effectively revived by Khrushchev. The Soviets have never attempted to conceal what they really meant by peaceful coexistence; that is, a means of advancing Soviet interests without war. And they have always made it crystal clear that the policy rejects a truce in the field of ideology. For them the struggle between the two systems must go on. It was unfortunate that so many people in the West did not understand in the late sixties and seventies that détente, which meant basically little more than more relaxed relations between the two alliances, did not signal the end of Soviet efforts to expand their influence and power in the world, or that friendlier relations would mean convergence between the two systems.

Avoiding military confrontation
What is necessary to understand in assessing East-West relations is that they are likely to be highly competitive for a long time to come, a choice which the Soviet leaders have made, not the West, but one we have to live with. Our task is to find ways and means of making sure, first, that this ideological and political competition does not lead to military confrontation, and second, to work out a more mutually profitable and civilized way of dealing with the innumerable problems which inevitably arise when two such immensely powerful countries as the USSR and the United States face each other.

The position of Canada in this confrontation differs in many ways from that of the United States and our European allies. At first glance Canada appears to be a country without any serious security problems, since the United States assures our protection in the interests of both countries. Without the American shield, it would be almost impossible for a country of less than 24 million people effectively to defend the second-largest land mass in the world and the longest coast line, even if we were prepared to meet the high cost. But for a hundred years, Canada had not thought of security in terms of the defence of our territory, but rather of defending our national interests in Europe or in Asia.

Canada joined NATO and agreed to station troops in the joint allied command in Europe in 1948 for much the same reason. There was a threat, or a perceived threat, from a hostile power to the world of which we were an integral part. The place to stop it was in Europe. This perception has not greatly changed since then but with the advent of nuclear weapons capable of

reaching North America it became clear that Canada, lying between the super-powers, would inevitably suffer from an aerial attack on either country. The disintegration of the Soviet nuclear satellite Cosmos over Canadian territory in 1978 was a vivid reminder that we could not escape involvement in the consequences of a nuclear conflict.

As North Americans, we shared on the whole the U.S. perception of the USSR in the post-war period, with one important exception. Canadians in general recognized the danger posed by the Soviet threat but the question was never exacerbated by an internecine quarrel nor an anti-communist witch-hunt of the type which distorted the American view of the USSR and made an objective interpretation of developments in China and Southeast Asia very difficult. This, in turn, led to the passionate but erroneous attachment to the domino theory.

For this reason, it was easier for Canada to recognize the changes which were taking place in Russia after the death of Stalin, to move gradually to adjust to the régime of his successors and to probe for ways to improve our relations, which had been seriously strained for the decade after 1945 as a result of the Gouzenko revelations of the espionage activities of the Soviet Embassy in Ottawa. We moved to improve our relations with the Khrushchev leadership because we saw a national interest in reducing tensions, and an international advantage in trying to reduce the dangerous level of strain between the West and the USSR.

The USSR was also in the mood to change, for internal and foreign policy reasons. The Canadian contribution was modest but constructive. Lester B. Pearson broke the ice by his visit to the USSR in 1955, the first by the Foreign Minister of any NATO power. But a year later, the brutal repression of the Hungarian revolt demonstrated how limited the field of maneouvre in dealing with the Soviets was going to be. Above all, it revealed the determination of the Soviets to hold on to their East European empire at any cost, an experience repeated 12 years later with the invasion of Czechoslovakia, and the problem at the present time of finding a way to reabsorb the Poles into the orthodox Soviet social, economic and security system.

Without the Vietnam War, which for a decade made any real improvement in US-USSR relations impossible, the period of détente might well have started much sooner. As it was, until 1972 it was left largely to West Germany, France, Britain and Canada to seek to flesh out the rhetoric of a general desire for a more normal world. This was done by completing economic, cultural, scientific and other agreements which brought the West into a more solid and beneficial relationship with the Soviet Union. But, as befits the reality of power, this could not achieve its full meaning until the US-Soviet rapprochement of 1972.

There will no doubt be endless speculation about détente, above all what the Soviets wanted out of it, and what advantages it had for the West. There is no easy answer unless one applies the oldest rule of diplomacy: that no agreement between equals is worthwhile unless it is a compromise which brings material advantages and drawbacks to both sides. Looked at in that light one can compose a reasonable balance sheet.

On the Soviet side, one has to make a distinction between what they sought from Canada and from West Germany, for example, and the United States. While there were good reasons in both cases for the Soviets to pursue an improved relationship with Canada, or with West Germany, it was always clear that for Moscow, détente was incomplete without the United States. Paramount in their minds was the desire to establish a balanced super-power relationship which would recognize Moscow as an equal politically in the same way that both countries had established an approximate military parity. The agreements between Nixon and Brezhnev conferred this accolade. But it also brought, in theory at least, some measure of reason to crisis management.

Modernizing the Soviet economy
Apart from this special US-Soviet dimension, the Soviets wanted a number of things from the West. First and foremost was the desire to obtain capital and technology. The Soviet economy in the late sixties was already beginning to slow down and to show the signs of strain which a decade later have become acute. The Soviets had made remarkable progress since the war in rebuilding the economy but, because of the highly centralized nature of the system, this meant concentration on heavy industry, housing construction, railways, oil, gas, iron, coal and other basic metals. By the time they had approached or passed American production in many of these items, Western economies were already well into the electronic age. The Soviet economy was, and still is, woefully deficient in these items. At the same time, the leaders began to recognize that some effort had to be made to modernize the system and to meet the consumer demands of an increasingly sophisticated and educated population.

Since it was not possible for the Soviets to abandon one of their major ideological foundations and introduce economic reforms which might smack of a capitalist market economy, their next best course was to seek the Western technology and often whole plants which theoretically would do the job while not affecting the Marxist system. For political reasons, the Soviets considered it impracticable and unwise, possibly humiliating, to seek capital and technology from countries with which relations were hostile. Thus, a prerequisite was the improvement of political relations.

To pay for this, the Soviets needed markets for their gas, oil, minerals and other products, for which a friendlier international atmosphere was necessary. The Soviets in fact are the foremost exponents of the theory that trade follows the flag.

There were also specific Soviet political goals, particularly in Europe. The West German Chancellor, Willy Brandt, had launched his Ost-Politik,

which aimed at restoring relations with East Germany, seeking ways of improving the lot of relatives in the GDR, that unattractive prisoner of the Soviets, and the emigration of thousands of Soviets of German extraction, the so-called Volga Germans. These were legitimate aims and the Soviets welcomed this move to lessen tension in Europe with the additional hope that it would provide a means of weakening West German, and eventually West European, ties with the United States and Canada.

The Chinese as "heretics"
One other political aim in the Soviet version of détente was connected with the problem of China. One has to have lived in the USSR and have visited the Siberian cities on its vast frontiers with China to comprehend the extent to which the Soviets are preoccupied with the Chinese threat. There are no foes more detested than members of a religion who become heretics. The Soviets cannot forgive the Communists for their defection from the true faith, Marxism-Leninism as defined by Moscow, and they blame much of the disarray in the world communist movement, if it can still be so called, on the Chinese opposition to Moscow. But more than that, there exists a visceral fear of China which dates back to the centuries of Mongol domination of Russia, a fear which is not diluted by Chinese claims on large parts of Soviet territory. The Soviets, therefore, saw in détente and a relaxation of relations with the West a means of improving their global position by avoiding conflict, which they envisaged primarily in political terms, on two fronts.

On the Western side détente brought distinct advantages, for the Germans in particular, but also in Western Europe in general where the superficially more relaxed relations with the USSR afforded a welcome relief. It also led to a quick improvement in trade and was undoubtedly of economic benefit to Western Europe. As far as Canada was concerned, the visit of Prime Minister Trudeau to the USSR and of Premier Kosygin to Canada in 1971 foreshadowed the Nixon-Brezhnev rapprochement the following year. It brought some benefits both political and economic, particularly in assuring for the Canadian wheat farmer an important continuing market.

For all Western countries the more mellow relations with the USSR in the seventies, as exemplified by the Helsinki Agreement, seemed to represent the first step towards a less dangerous confrontation between the two blocs, greater possibilities of preventing war by accident, and the hope that the Soviet system might be transformed into something less rigid and autocratic.

Things did not work out that way. It is fashionable to date the collapse of détente from the Soviet occupation of Afghanistan in December 1979. It is salutary to recall that the retreat from détente had started much earlier. One of the flaws in the whole process of rapprochement was the misconception of the other side's interests and aims. Unfortunately, this led to an effort on the Western side to paper over their differences, and on the Soviet side cynically to obscure them. It would have been preferable to accept the basic fact that the two ideologies are competitive and frequently incompatible, and that in addition each side was going to continue to pursue its national aims – the extension or at least defence of its influence wherever possible throughout the world.

The process of disillusionment
While détente survived the Yom Kippur War in 1973 (although there were some frighteningly close misses between the United States and the USSR), the events which helped to accelerate the process of disillusionment were the introduction of Cuban surrogate troops into Angola to install and maintain a pro-Moscow régime, followed by a similar action in Ethiopia, and the rapid expansion of Soviet power in South Yemen. The Soviets for their part resented their expulsion from Egypt and Somalia and their exclusion from the negotiating process in the Middle East.

In the second place, the Basket Three provisions of the Helsinki Agreement on respect for human rights began to haunt the Russians. They obviously thought the other elements in the Treaty of sufficient importance to pay lip service to human rights as the price of the agreement. But the West was not prepared to accept this situation. The Soviets not only ignored the Treaty but continued, even stepped up, persecution of almost every type of dissident, and this was bound to become an irritant in East-West relations. Certainly, Canada could not accept the constant harassment and imprisonment of Protestants, Lithuanian and Ukrainian Catholics, Jews and

other religious groups, nationalist leaders from many of the lesser ethnic groups, Russian orthodox nationalists like Solzhenitsyn and Amalrik, dissident democrats like Sakharov, and even the brave band of men and women who simply tried to monitor the Soviet observance of the Helsinki Agreement. It is a typical paradox of the Soviet system that the first victims of persecution contrary to the terms of Helsinki were precisely the self-constituted observers of Soviet respect for the Treaty. And it is an equal paradox of our time that so many people in the West ignore this absurd situation and the flagrant violation of human rights in one of the most powerful countries in the world, while concentrating on human rights violations in the West.

"Cheating" on détente

Finally, it gradually became known that during the decade of the seventies, while the United States had run down its armed forces, the Soviet Union had been engaged in the massive expansion of its surface and underwater fleet beyond reasonable defensive needs, the modernization of many of its conventional forces, the construction of a new bomber, the Backfire, and the building of a new and very effective intermediate range ballistic missile, the SS-20. It was the deployment of these missiles, starting in 1977, that brought home vividly to the West, and particularly to the West Europeans, against whom they represented the greatest and more immediate threat, the fact that the USSR appeared to be seeking military superiority.

While all this added up to an appearance of "cheating" on détente, they were not unsurmountable obstacles and the Carter administration made a serious effort on nuclear arms limitation when Cyrus Vance in March 1977, proposed deep cuts to the Soviets. If it had not been rejected out of hand, we might have avoided many of the subsequent misunderstandings about SALT and other efforts at arms control, all of which were viewed with sympathy by Canada and the European allies. As in the case of SALT, it is useful to recall that the Soviets could have had talks on the control and reduction of intermediate range missiles in Europe in the fall of 1979 if they had accepted NATO's offer. But they refused, possibly stung by the refusal of Congress to ratify the SALT agreement which had been signed by Carter and Brezhnev in the summer.

The situation was thus already rife with mutual suspicion and mistrust when the Soviets sent 85,000 troops into Afghanistan, ostensibly at the call of the Communist government whose leader was promptly assassinated, to be replaced by the leader of another faction of the Afghan Communist Party more amenable to Moscow and who returned to Kabul with the invading Soviet forces.

The Western reaction was swift, strong and unanimous. It could barely have been otherwise since, in spite of the flimsy cover story, the invasion was a manifest aggression against a neighbouring people who have demonstrated their opposition since then by continuous guerrilla warfare against the occupying troops and their Afghan collaborators, and by fleeing to refuge in Pakistan and Iran to the number of more than one sixth of the total population.

Serious miscalculation

But there was more to it than that. For the first time since the attempt to detach Azerbaijan from Iran in 1945-46, the Soviets had moved into a neighbouring state outside the Soviet bloc. Unacceptable as the military interventions in Hungary and Czechoslovakia were, they took place within the East European bloc and did not basically alter the military balance of power. But the action in Afghanistan, even if it had been originally only the limited aim of preserving a Communist régime in office, nevertheless represented an arrogant use of force against a neighbour and the extension of the Soviet military and political presence into the centre of Asia. It was a departure from acceptable behaviour between the two alliances which had to be protested.

The Soviets seriously miscalculated the reaction of both the West and the Third World to their intervention in Afghanistan. Believing that the West had no vital security interest in the country, they expected a routine condemnation but not the kind they received, particularly the grain embargo and the boycott of the Olympic Games; they also badly miscalculated the extent of sympathy for the USSR in the Third World. In spite of this, they would probably have intervened anyway because of what they considered their political and security stakes, and the impossibility of abandoning a communist régime.

Afghanistan illustrates two of the dangerous complications in dealing with the Soviets: the ease with which each side can misinterpret the intentions and reactions of the other, and the importance of the ideological content in determining Soviet policy. In the first case, the Soviets clearly underestimated the strength of Western reaction and failed to realize that their occupation of Afghanistan would ring alarm bells in Western capitals because of the proximity of the oil fields, of such vital concern to industrialized societies. On the Western side, there was a failure to understand the security preoccupation of the Soviet with their vulnerable southern flank and to accept that the invasion was primarily an operation confined to Afghanistan and not the prelude to a thrust to the Gulf.

Equally, the Soviets felt that their credibility as the bastion of Communism would be at stake if they let a communist régime in a neighbouring country collapse, particularly as they had been instrumental in putting it there. This in no way justifies their action but it helps to explain their need to intervene to support it. But again, there is a clear case of misunderstanding, on both the military and the ideological side. The Soviets totally miscalculated the weakness of the Afghan communists as well as the strength of traditional Moslem relgious fervour.

Soviet pragmatism

There is a great deal of pragmatism in the Soviet approach to foreign affairs and it is unlikely that the USSR will undertake any venture for ideological reasons unless it is also feasible and cheap, and will advance Soviet national interests. Nevertheless, Marxist-Leninist doctrine has been instilled into the Soviets since an early age, and it is the doctrine which legitimizes their hold on power. We ignore it at our peril. It is also an enormously useful instrument by which to manipulate other communist parties and influence the Left in both the Western countries and the Third World. There is, therefore, a certain ideological obligation which merges with national interest to support leftist revolutionary movements around the world, but so far at any rate it has been applied on a realistic basis, i.e., that such support is practicable and does not lead to a direct confrontation with the United States.

Where security and ideology combine to make an almost intolerable dilemma for the Soviet Union is Poland, and this dilemma is almost equally difficult for the West. The revolt of the proletariat in Poland which started in August 1980, has been a humiliating experience for the Soviet communists because it revealed the total inability of a Soviet-type economy to function properly; the extent of anti-Russian feeling among the Polish people; and above all the falsity of the theory that the workers cannot revolt against themselves since the Communist Party is supposed to be the voice and servant of the workers.

For 500 years, Poland has represented a problem for the Russians, either as invaders or later as a particularly indi-

gestible portion of the Russian Empire. Whether justified or not, the Russians have always considered Poland an essential part of their strategy of defence. Since the end of World War II, it has primarily played the role of guaranteeing their lines of communication to East Germany which is the key element in the Soviet military system in Eastern Europe.

So far, the events in Poland have not directly threatened the Soviet military system. If they did there would be no doubt about the Soviet response. But there are a great many other factors in these developments which, in spite of the imposition of martial law by the Polish armed forces under General Jaruzelski, constitute a potential threat to the Soviets. The break-up of Solidarity has at least temporarily removed the prospect of a communist country actually run by the workers, a prospect which is unsettling for both the Soviet Union itself and the other members of the Warsaw Pact. For the time being, the power and influence of the Catholic Church has been slightly curtailed. And the "liberal" reforms introduced into the Polish Communist Party, particularly with regard to free and secret elections have faded away, partly because the Polish Party is itself in disarray.

But three disturbing questions remain unanswered, questions of prime importance to the USSR. The economy, ruined and bankrupted by a feckless leadership and the slavish implantation in Poland of the inefficient Soviet system, shows little sign of recovery. And indeed it probably cannot be restored, even to the pre-1980 level, without radical reforms, reforms which would be unacceptable to the Soviets because they would affect the very core of communist ideology.

In the second place is the maintenance of order and the ability of the military régime to acquire a measure of acceptance by the population as a whole. And finally, they are perturbed at the idea of a communist state being run by a military junta, even if its members are all solid communists. It runs counter to the basic concept of a communist society which should have the monopoly of power firmly in its hands. This is certainly not the case in Poland and the delay in resuscitating the Communist Party is a measure of the dilemma for Moscow.

Nevertheless the Soviets have hesitated at direct military intervention, with good reason. The Poles, 36 million of them, would not be easily digestible and there would almost certainly be bloodshed. The Soviets can hardly be unaware of the depth of emotion in the West about Poland, and that the reaction would be strong. Nor are they eager to assume the responsibility for the Polish economy on top of their own enormous problems. The dilemma is clear. We must, therefore, anticipate that Poland and indeed the other countries of Eastern Europe will remain as an obstacle to reasonable relations with the Soviet Union for a long time to come.

Turnaround in the United States

The situation is further complicated by the complex nature of modern warfare and by the intense nuclear competition. The Soviets have been taken aback by the Reagan administration. They did not expect that the anti-Soviet vocabulary of the election campaign would be translated into action. They found it difficult to believe that Reagan would have public and congressional support for a policy of massive rearmament. They recalled that in the early seventies polls showed 67 percent of Congress and 58 percent of public opinion in favour of détente. They could not understand the extent to which they were themselves responsible for a total turnaround in the United States. Nor can they find a way to cope with an administration that is ideologically motivated, a phenomenon beyond their experience.

There has been relative peace in the world – at least there has been no direct military clash between the two alliances – since 1945. This is due to considerable statesmanship which has helped to prevent regional conflicts such as the Korean war, the Vietnam war, and the three major Arab-Israeli wars from involving the super-powers directly. It is also due to a tacit acceptance of the division of Europe and, sad to admit, the approximate nuclear balance and the doctrine of Mutual Assured Destruction.

But in the last few years, the nuclear balance has come into question. The Soviets claim that there was an American nuclear monopoly to start with, then a distinct nuclear superiority, followed by approximate parity. It is the latter claim that is difficult to prove or disprove with total assurance. Trying to estimate the weight, range, number of war-heads and accuracy of missiles becomes an arcane science. The Mutual Balanced Force Reduction negotiations between those countries maintaining troops in Central Europe have been in session for nine years and have been unable even to agree on counting soldiers and conventional weapons. How much harder it is going to be to decide on the more complex problem of equating the SS-20 and the Pershing II in the Geneva talks on Intermediate Range Nuclear Weapons, or on Long Range Ballistic Missiles when START talks finally begin.

Widely differing perceptions

This inability to agree on the most fundamental technical questions reflects the deep mistrust of each other's intentions and their widely differing per-

ceptions. The Soviets, for example, insist that a proper estimate of the nuclear balance cannot simply count U.S. missiles but must also take into account the French and British nuclear forces and the Chinese missiles. The United States considers this to reflect a hegemonistic approach and cannot agree that every potential force outside the Soviet bloc must be counted when what are essentially bilateral negotiations take place.

The danger consists of the concatenation of a number of factors: the political tensions between the two sides, the build-up and improvement in Soviet nuclear forces to an extent that the nuclear balance on which peace depends has come under question; expansion of Soviet naval forces well beyond what would appear to be necessary for defensive purposes, the readiness of the Soviets to expand their influence in areas beyond their legitimate sphere, and to use force to dominate a neighbouring country. These facts coincide with the arrival in power of an American administration determined to restore the military balance, but also at a period when the burden of armaments weighs heavily on Western economies in deep recession and when there is public alarm in almost every Western country at the danger of nuclear war.

It is obvious that East-West relations depend primarily on the United States and the Soviet Union. But it is equally obvious that they are of vital importance to other countries as well, not least of them Canada. The Soviet Union is the only country which could threaten our existence. Canada lies between the two super-powers and it would be naive to think that we could escape the results of nuclear war. We have as great a stake as our NATO allies in an agreed policy which will stop the spread of Soviet political influence and power while preventing a direct military clash. In the longer run, we have an interest in a civilized relationship with the USSR which will continue to assure us of our major market for grains, above all wheat, and to improve the situation of the Russian, Ukrainian, Baltic and Jewish peoples and of advocates of religious and democratic liberties, something all Canadians are concerned about, but in particular the large number who have cultural or ethnic ties with the Soviet Union.

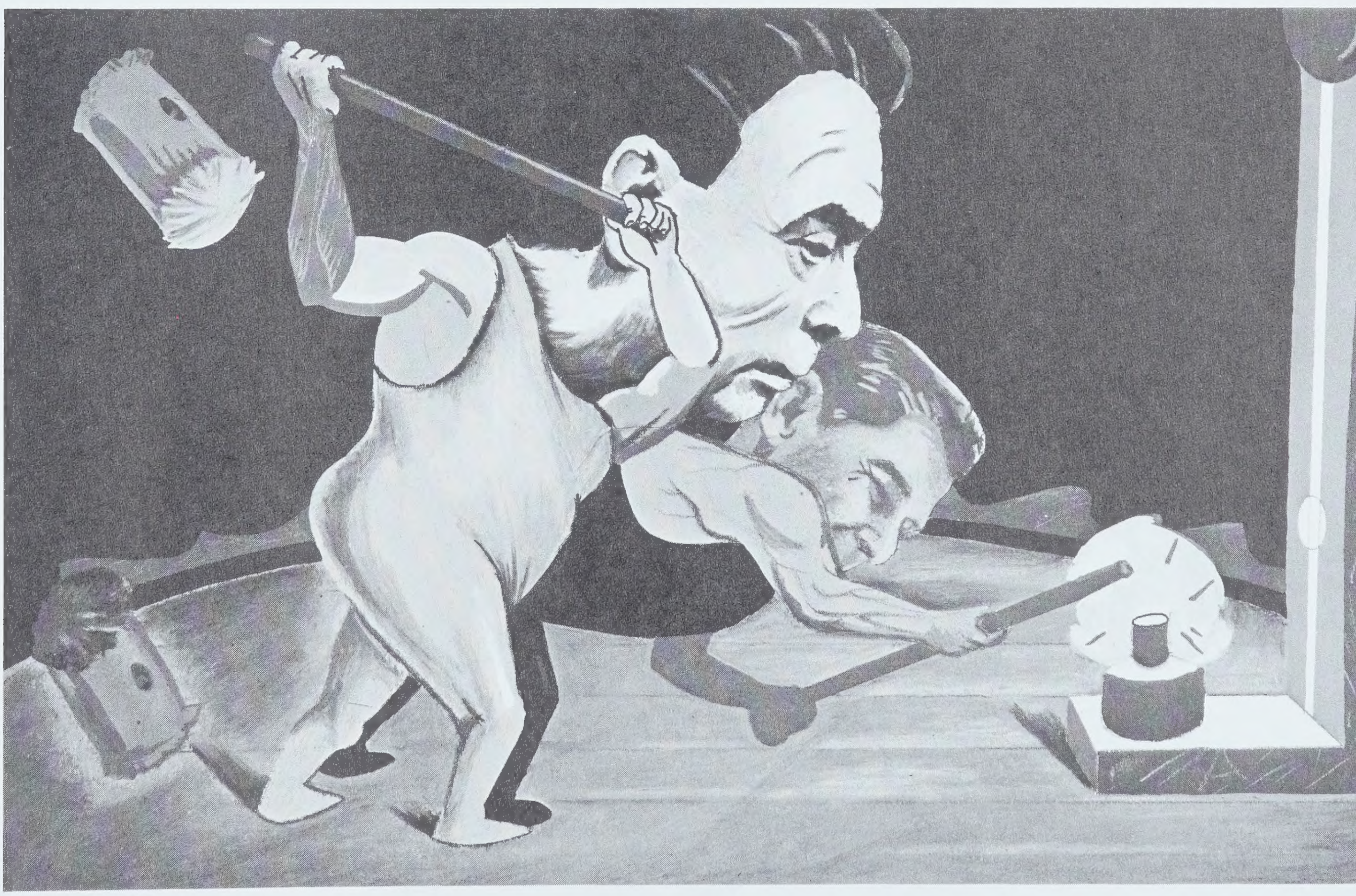
It must be admitted that our freedom of action is perforce limited. There is relatively little that can be done, even when relations are reasonably good, to improve the situation. The factors involved in change lie mainly inside the USSR, and the nature of its society

makes rapid evolution highly unlikely. But there is always a margin for manoeuvre which must be carefully explored and utilized, provided that this is done with care and an appreciation of the general interests of the Western Alliance as a whole and not just limited national interests.

What Canada can do

The problem consists in identifying those alliance interests, reconciling them with national interests, and in evolving a coherent and acceptable policy for advancing them. In times of stress in particular, it is imperative that the NATO alliance remain strongly united behind policies which are determined but flexible. A separate policy for Canada would be neither practical nor sensible. But what Canada can do, and has done in the past, is to advocate a policy of balance and moderation, to attempt to demonstrate to the Soviets that our national interest is identical with that of NATO as a whole, that we believe peace can be maintained if neither side attempts to gain a clear military superiority over the other and if the manifest security interests of each side are recognized.

This is not going to be easy in the few years to come. In addition to the obstacles in the way of East-West relations outlined earlier, it seems probable that the whole context of relations will expand, will be globalized. Already in the past three decades local wars and regional ambitions have often seriously complicated the situation, and added a dimension far larger than that envisaged by the founding fathers of NATO. In the future, regional conflicts will become more acute and it will require statesmanship of a high degree to prevent their escalation and the involvement of the super-powers.



This is the way in which nuclear war might start, through accidental development from a minor conflict in an area of vital concern to one or both alliances, not through one of the superpowers deliberately launching an aggressive attack on the other. It is precisely to avoid this that some improved method of crisis management between the two sides must be worked out, and why contact has to be maintained. Much has been heard of linkage in recent years and indeed it is hardly possible, in Western capitals at least, to ignore such Soviet actions as the invasion of Afghanistan, the deployment of the SS-20 in Europe, or repressive actions against Poland. Nevertheless, it is a potentially dangerous concept if carried to its logical extreme. Unacceptable international behaviour must be protested, and failure to do so would only encourage further intolerable behaviour. But there are some areas in which political linkage should be limited, above all the field of disarmament and arms control. The continuation of the search for these goals is of equal interest to the West as to the Soviets, and the stakes are too high to permit the dialogue to be interrupted again. Canada's voice should be heard in support of this aim.

Canada as peacemaker

It is equally important to try to prevent the escalation of local conflicts and to this end the peace-making and peace-keeping mechanisms should be strengthened. Canada has had a long and fruitful experience in this field. Exasperating, expensive and at times frustrating, nevertheless it has generally proved to be an effective means of either preventing conflict or controlling it. Although it is far from perfect, since it has to reflect the political will of its constituent members, the United Nations is still the only organization capable of undertaking such a task on a large scale, the international force in the Sinai being one of the few successful exceptions. Canada, because of its reputation for objectivity and moderation, is ideally suited to support any moves towards broadening the scope and power of the United Nations peace-keeping machinery.

None of the problems in East-West relations are going to be easy to solve and it would be doing ourselves an injustice to suggest the contrary. But they have to be tackled calmly and with as much knowledge and reason as we can muster. For, as Alexander Herzen said: "The greatest of sins that any human being can perpetrate is to seek to transfer moral responsibility from his own shoulders to an unpredictable future order".

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